What does it mean when hp printer says pick motor stalled

Many have tried building a free energy-producing magnetic motor. I am seeing a lot in my daily quest through alternative energy news, but what I have learned is that energy is not free, perpetual motion machines do not exist, everything is taken from somewhere and put elsewhere. Free energy from magnets respects the same rule. There also is this so-called "free energy", the zero-point energy, proven mathematically by many scientists. My duty as a green optimistic is to collect everything I see someone has struggled explaining and demonstrating, put it in one place and let the people see and comment. Such is the example of this magnetic motor. But there are also "green pessimistic" websites. When they see something out of "common sense" boundaries, they freak out and scream something like"omg, this can't be real! I need no proof! I must not think of this! Perish, Satan!" I took such an article today as an inspiration because it talks about a magnetic motor, one of my favorite free energy topics, about which I haven't heard much lately. Here is the whole process of transforming the free magnetic energy into mechanical energy, explained by the invention's author (Sandeep Acharya): "Think of Two Powerful Magnets. One fixed plate over rotating disk with North side parallel to disk surface, and other on the rotating plate connected to small gear G1. If the magnet over gear G1's north side is parallel to that of which is over Rotating disk then they both will repel each other. Now the magnet over the left disk will try to rotate the disk below in (think) clock-wise direction. Now there is another magnet at 30 angular distance on Rotating Disk on both side of the magnet M1. Now the large gear G0 is connected directly to Rotating disk with a rod. So after repulsion if Rotating-Disk rotates it will rotate the gear G0 which is connected to gear G1. So the magnet over G1 rotate in the direction perpendicular to that of fixed-disk surface. Now the angle and teeth ratio of G0 and G1 is such that when the magnet M1 moves 30 degree, the other magnet which came in the position where M1 was, it will be repelled by the magnet of Fixed-disk as the magnet on Fixed-disk has moved 360 degrees on the plate above gear G1. So if the first repulsion of Magnets M1 and M0 is powerful enough to make rotating-disk rotate 30-degrees or more the disk would rotate till error occurs in position of disk, friction loss or magnetic energy loss. The space between two disk is just more than the width of magnets M0 and M1 and space needed for connecting gear G0 to rotating disk with a rod. Now I've not tested with actual objects. When designing you may think of losses or may think that when rotating disk rotates 30 degrees and magnet M0 will be rotating clock-wise on the plate over G2 then it may start to repel M1 after it has rotated about 25 degrees, the solution is to use more powerful magnets. If all the objects are made precisely with measurements given and the rectangular cubic magnets are powerful enough to rotate more then 30 degrees in first repulsion then the system will work. Here friction and other losses are neglected as magnets are much more powerful. But think of friction between rotating disk and Shaft, it can be neglected by using magnetic joint between them. On the left primary measurements of needed objects are given. If you find any reason of not running this mechanism let me know." It seems to me that this is basically the Perendev motor presented in the same-named category of our blog. Perendev was charged of scamming some people and even served for a while. Still, maybe someday someone will be able to produce free energy by using magnet motors. What do you think? Could it work? (Visited 146,250 times, 1 visits today) Critical Thinking MyMarketingLab™: Improves Student Engagement Before, During, and After ClassFull-Circle Learning Decision Making Prep and Engagement • Video exercises – engaging videos that bring business concepts to life and explore business topics related to the theory students are learning in class. Quizzes then assess students' comprehension of the concepts covered in each video. • Learning Catalytics – a "bring your own device" student engagement, assessment, and classroom intelligence system helps instructors analyze students' critical-thinking skills during lecture. • Dynamic Study Modules (DSMs) – through adaptive learning, students get personalized guidance where and when they need it most, creating greater engagement, improving knowledge retention, and supporting subject-matter mastery. 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Marketing management/Philip Kotler, Kevin Lane Keller.—15e [edition]. pages cm ISBN 978-0-13-385646-0 (student edition) 1. Marketing—Management. I. Keller, Kevin Lane, 1956- II. Title. HF5415.13.K64 2016 658.8—dc23 2014028870 10 9 8 7 6 5 4 3 2 1 ISBN 10: 0-13-385646-1 ISBN 13: 978-0-13-385646-0 This book is dedicated to my wife and best friend, Nancy, with love. —PK This book is dedicated to my wife, Punam, and my two daughters, Carolyn and Allison, with much love and thanks. —KLK ab Philip Kotler is one of the world's leading authorities on marketing. He is the S. C. Johnson & Son Distinguished Professor of International Marketing at the Kellogg School of Management, Northwestern University. He received his master's degree at the University of Chicago and his Ph.D. at MIT, both in economics. He did postdoctoral work in mathematics at Harvard University and in behav- ioral science at the University of Chicago. Dr. Kotler is the coauthor of Principles of Marketing and Marketing: An Introduction. His Strategic Marketing for Nonprofit Organizations, now in its seventh edition, is the best seller in that specialized area. Dr. Kotler's other books include Marketing Models; The New Competition; Marketing Professional Services; Strategic Marketing for Educational Institutions; Marketing for Health Care Organizations; Marketing Congregations; High Visibility; Social Marketing; Marketing Places; The Marketing of Nations; Marketing for Hospitality and Tourism; Standing Room Only—Strategies for Marketing the Performing Arts; Museum Strategy and Marketing; Marketing Moves; Kotler on Marketing; Lateral Marketing; Winning at Innovation; Ten Deadly Marketing Sins; Chaotics; Marketing Your Way to Growth; Winning Global Markets; and Corporate Social Responsibility. In addition, he has published more than 150 articles in leading journals, including the Harvard Business Review, Sloan Management Review, Business Horizons, California Management Review, the Journal of Marketing, Journal of Marketing Research, Management Science, the Journal of Business Strategy, and Futurist. He is the only three-time winner of the coveted Alpha Kappa Psi award for the best annual article published in the Journal of Marketing. Professor Kotler was the first recipient of the American Marketing Association's (AMA) Distinguished Marketing Educator Award (1985). The European Association of Marketing Consultants and Sales Trainers awarded him their Prize for Marketing Excellence. He was chosen as the Leader in Marketing Thought by the Academic Members of the AMA in a 1975 survey. He also received the 1978 Paul Converse Award of the AMA, honoring his original contribution to marketing. In 1995, the Sales and Marketing Executives International (SMEI) named him Marketer of the Year. In 2002, Professor Kotler received the Distinguished Educator Award from the Academy of Marketing Science. In 2013, he received the William L. Wilkie "Marketing for a Better World" Award and subsequently received the Sheth Foundation Medal for Exceptional Contribution to Marketing Scholarship and Practice. In 2014, he was inducted in the Marketing Hall of Fame. He has received honorary doctoral degrees from Stockholm University, the University of Zurich, Athens University of Economics and Business, DePaul University, the Cracow School of Business and Economics, Groupe H.E.C. in Paris, the Budapest School of Economic Science and Public Administration, the University of Economics and Business Administration in Vienna, and Plekhanov Russian Academy of Economics. Professor Kotler has been a consultant to many major U.S. and foreign companies, including IBM, General Electric, AT&T, Honeywell, Bank of America, Merck, SAS Airlines, Michelin, and others in the areas of marketing strategy and planning, marketing organization, and international marketing. He has been Chairman of the College of Marketing of the Institute of Management Sciences, a Director of the American Marketing Association, a Trustee of the Marketing Science Institute, a Director of the MAC Group, a member of the Yankelovich Advisory Board, and a member of the Copernicus Advisory Board. He was a member of the Board of Governors of the School of the Art Institute of Chicago and a member of the Advisory Board of the Drucker Foundation. He has traveled extensively throughout Europe, Asia, and South America, advising and lecturing to many companies about global marketing opportunities. about the authors P hi lip K ot le r v Kevin Lane Keller is the E. B. Osborn Professor of Marketing at the Tuck School of Business at Dartmouth College. Professor Keller has degrees from Cornell, Carnegie-Mellon, and Duke universities. At Dartmouth, he teaches MBA courses on mar- keting management and strategic brand management and lectures in executive programs on those topics. Previously, Professor Keller was on the faculty at Stanford University, where he also served as the head of the marketing group. Additionally, he has been on the faculty at the University of California at Berkeley and the University of North Carolina at Chapel Hill, has been a visiting professor at Duke University and the Australian Graduate School of Management, and has two years of industry experience as Marketing Consultant for Bank of America. Professor Keller's general area of expertise lies in marketing strategy and planning and branding. His specific research interest is in how understanding theories and concepts related to consumer behavior can improve marketing strategies. His research has been published in three of the major marketing journals: the Journal of Marketing, the Journal of Marketing Research, and the Journal of Consumer Research. He also has served on the Editorial Review Boards of those journals. With more than 90 pub- lished papers, his research has been widely cited and has received numerous awards. Actively involved with industry, he has worked on a host of different types of marketing projects. He has served as a long-term consultant and advisor to marketers for some of the world's most successful brands, including Accenture, American Express, Disney, Ford, Intel, Levi Strauss, Procter & Gamble, and Samsung. Additional brand consulting activities have been with other top companies such as Allstate, Beiersdorf (Nivea), BlueCross BlueShield, Campbell, Colgate, Eli Lilly, ExxonMobil, General Mills, GfK, Goodyear, Hasbro, Intuit, Johnson & Johnson, Kodak, L.L.Bean, Mayo Clinic, MTV, Nordstrom, Ocean Spray, Red Hat, SAB Miller, Shell Oil, Starbucks, Unilever, and Young & Rubicam. He has also served as an academic trustee for the Marketing Science Institute and served as their Executive Director from July 1, 2013, to July 1, 2015. A popular and highly sought-after speaker, he has made speeches and conducted marketing semi- nars to top executives in a variety of forums. Some of his senior management and marketing training clients have included such diverse business organizations as Cisco, Coca-Cola, Deutsche Telekom, ExxonMobil, GE, Google, IBM, Macy's, Microsoft, Nestle, Novartis, Pepsico, SC Johnson and Wyeth. He has lectured all over the world, from Seoul to Johannesburg, from Sydney to Stockholm, and from Sao Paulo to Mumbai. He has served as keynote speaker at conferences with hundreds to thousands of participants. Professor Keller is currently conducting a variety of studies that address strategies to build, mea- sure, and manage brand equity. His textbook on those subjects, Strategic Brand Management, in its fourth edition, has been adopted at top business schools and leading firms around the world and has been heralded as the "bible of branding." An avid sports, music, and film enthusiast, in his so-called spare time, he has helped to manage and market, as well as serve as executive producer for, one of Australia's great rock-and-roll treasures, The Church, as well as American power-pop legends Tommy Keene and Dwight Twilley. He also serves on the Board of Directors for The Doug Flutie, Jr. Foundation for Autism, the Lebanon Opera House, and the Montshire Museum of Science. Professor Keller lives in Etna, NH, with his wife, Punam (also a Tuck marketing professor), and his two daughters, Carolyn and Allison. K ev in L an e K el le r vi Brief Contents Preface xvii Part 1 Understanding Marketing Management 2 Chapter 1 Defining Marketing for the New Realities 3 Chapter 2 Developing Marketing Strategies and Plans 35 Part 2 Capturing Marketing Insights 66 Chapter 3 Collecting Information and Forecasting Demand 67 Chapter 4 Conducting Marketing Research 99 Part 3 Connecting with Customers 126 Chapter 5 Creating Long-Term Loyalty Relationships 127 Chapter 6 Analyzing Consumer Markets 157 Chapter 7 Analyzing Business Markets 189 Chapter 8 Tapping into Global Markets 217 Part 4 Building Strong Brands 244 Chapter 9 Identifying Market Segments and Targets 245 Chapter 10 Crafting the Brand Positioning 275 Chapter 11 Creating Brand Equity 299 Chapter 12 Addressing Competition and Driving Growth 335 Part 5 Creating Value 366 Chapter 13 Setting Product Strategy 367 Chapter 14 Designing and Managing Services 399 Chapter 15 Introducing New Market Offerings 429 Chapter 16 Developing Pricing Strategies and Programs 461 Part 6 Delivering Value 492 Chapter 17 Designing and Managing Integrated Marketing Channels 493 Chapter 18 Managing Retailing, Wholesaling, and Logistics 527 Part 7 Communicating Value 556 Chapter 19 Designing and Managing Integrated Marketing Communications 557 Chapter 20 Managing Mass Communications: Advertising, Sales Promotions, Events and Experiences, and Public Relations 585 Chapter 21 Managing Digital Communications: Online, Social Media, and Mobile 615 Chapter 22 Managing Personal Communications: Direct and Database Marketing and Personal Selling 635 Part 8 Conducting Marketing Responsibly for Long-Term Success 656 Chapter 23 Managing a Holistic Marketing Organization for the Long Run 657 Appendix: Sonic Marketing Plan and Exercises A1 Endnotes E1 Glossary G1 Name Index I1 Company, Brand, and Organization Index I5 Subject Index I18 vii Contents Preface xvii Part 1 Understanding Marketing Management 2 Chapter 1 Defining Marketing for the New Realities 3 The Value of Marketing 3 Marketing Decision Making 3 Winning Marketing 4 The Scope of Marketing 5 What Is Marketing? 5 What Is Marketed? 5 Who Markets? 7 Core Marketing Concepts 9 Needs, Wants, and Demands 9 Target Markets, Positioning, and Segmentation 9 Offerings and Brands 10 Marketing Channels 10 Paid, Owned, and Earned Media 10 Impressions and Engagement 10 Value and Satisfaction 11 Supply Chain 11 Competition 12 Marketing Environment 12 The New Marketing Realities 13 Technology 13 Globalization 14 Social Responsibility 14 MarkEtING INSIGht Marketing 3.0 15 A Dramatically Changed Marketplace 16 New Consumer Capabilities 16 New Company Capabilities 17 Changing Channels 19 Heightened Competition 19 Marketing in Practice 19 Marketing Balance 19 MarkEtING MEMO Reinventing Marketing at Coca-Cola 20 Marketing Accountability 20 Marketing in the Organization 20 Company Orientation toward the Marketplace 20 The Production Concept 20 The Product Concept 21 The Selling Concept 21 The Marketing Concept 21 The Holistic Marketing Concept 21 Updating the Four Ps 25 MarkEtING INSIGht Understanding the 4 As of Marketing 26 Marketing Management Tasks 27 Developing Marketing Strategies and Plans 27 Capturing Marketing Insights 28 Connecting with Customers 28 Building Strong Brands 28 MarkEtING MEMO Marketers' Frequently Asked Questions 28 Creating Value 29 Delivering Value 29 Communicating Value 29 Conducting Marketing Responsibly for Long-Term Success 29 Summary 29 applications 30 MarkEtING ExCEllENCE Nike 30 MarkEtING ExCEllENCE Google 32 Chapter 2 Developing Marketing Strategies and Plans 35 Marketing and Customer Value 35 The Value Delivery Process 35 The Value Chain 36 Core Competencies 36 The Central Role of Strategic Planning 37 Corporate and Division Strategic Planning 38 MarkEtING MEMO What Does It Take to Be a Successful CMO? 39 Defining the Corporate Mission 39 Establishing Strategic Business Units 42 Assigning Resources to Each SBU 42 Assessing Growth Opportunities 42 Organization and Organizational Culture 46 Marketing Innovation 47 MarkEtING INSIGht Creating Innovative Marketing 47 Business Unit Strategic Planning 48 The Business Mission 49 SWOT Analysis 49 viii Contents MarkEtING MEMO Checklist for Evaluating Strengths/Weaknesses Analysis 51 Goal Formulation 52 Strategic Formulation 52 Program Formulation and Implementation 53 MarkEtING INSIGht Business Charting a New Direction 54 Feedback and Control 55 The Nature and Contents of a Marketing Plan 55 MarkEtING MEMO Marketing Plan Criteria 55 The Role of Research 56 The Role of Relationships 56 From Marketing Plan to Marketing Action 57 Summary 57 applications 58 Sample Marketing Plan: Pegasus Sports International 61 MarkEtING ExCEllENCE Cisco 58 MarkEtING ExCEllENCE Intel 59 Part 2 Capturing Marketing Insights 66 Chapter 3 Collecting Information and Forecasting Demand 67 Components of a Modern Marketing Information System 67 Internal Records 69 The Order-to-Payment Cycle 69 Sales Information Systems 69 Databases, Data Warehousing, and Data Mining 69 MarkEtING INSIGht Digging into Big Data 70 Marketing Intelligence 70 The Marketing Intelligence System 70 Collecting Marketing Intelligence on the Internet 72 Communicating and Acting on Marketing Intelligence 72 Analyzing the Macroenvironment 72 Needs and Trends 73 Identifying the Major Forces 73 The Demographic Environment 74 MarkEtING MEMO Finding Gold at the Bottom of the Pyramid 75 The Economic Environment 77 The Sociocultural Environment 78 The Natural Environment 79 MarkEtING INSIGht The Green Marketing Revolution 81 The Technological Environment 82 The Political-Legal Environment 83 MarkEtING INSIGht Watching Out for Big Brother 85 Forecasting and Demand Measurement 85 The Measures of Market Demand 86 A Vocabulary for Demand Measurement 87 Estimating Current Demand 89 Estimating Future Demand 91 Summary 93 applications 93 MarkEtING ExCEllENCE Microsoft 94 MarkEtING ExCEllENCE Walmart 95 Chapter 4 Conducting Marketing Research 99 The Scope of Marketing Research 99 Importance of Marketing Insights 99 Who Does Marketing Research? 100 Overcoming Barriers to the Use of Marketing Research 101 The Marketing Research Process 102 Step 1: Define the Problem, the Decision Alternatives, and the Research Objectives 102 Step 2: Develop the Research Plan 103 MarkEtING MEMO Conducting Informative Focus Groups 105 MarkEtING MEMO Questionnaire Dos And Don'ts 108 MarkEtING INSIGht Getting into the Heads of Consumers 109 MarkEtING INSIGht Understanding Brain Science 111 Step 3: Collect the Information 113 Step 4: Analyze the Information 113 Step 5: Present the Findings 113 MarkEtING INSIGht Bringing Marketing Research to Life with Personas 114 ix Step 6: Make the Decision 114 Measuring Marketing Productivity 115 Marketing Metrics 115 MarkEtING MEMO Measuring Social Media ROI 117 Marketing-Mix Modeling 118 Marketing Dashboards 118 MarkEtING MEMO Designing Effective Marketing Dashboards 119 Summary 121 applications 121 MarkEtING ExCEllENCE IDEO 122 MarkEtING ExCEllENCE Intuit 124 Part 3 Connecting with Customers 126 Chapter 5 Creating Long-Term Loyalty Relationships 127 Building Customer Value, Satisfaction, and Loyalty 127 Customer-Perceived Value 128 Total Customer Satisfaction 131 Monitoring Satisfaction 133 Product and Service Quality 134 MarkEtING INSIGht Net Promoter and Customer Satisfaction 135 Maximizing Customer Lifetime Value 136 Customer Profitability 137 Measuring Customer Lifetime Value 138 MarkEtING MEMO Calculating Customer Lifetime Value 139 Building Loyalty 142 Brand Communities 143 Win-Backs 146 Cultivating Customer Relationships 146 Customer Relationship Management 146 MarkEtING INSIGht The Behavioral Targeting Controversy 147 Summary 152 applications 152 MarkEtING ExCEllENCE Nordstrom 153 MarkEtING ExCEllENCE Tesco 154 Chapter 6 Analyzing Consumer Markets 157 What Influences Consumer Behavior? 157 Cultural Factors 157 Social Factors 159 Personal Factors 161 MarkEtING MEMO The Average U.S. Consumer Quiz 162 Key Psychological Processes 165 Motivation 165 Perception 167 MarkEtING MEMO The Power of Sensory Marketing 167 Learning 169 Emotions 170 Memory 171 The Buying Decision Process: The Five-Stage Model 172 Problem Recognition 173 Information Search 174 Evaluation of Alternatives 175 Purchase Decision 176 Postpurchase Behavior 178 Moderating Effects on Consumer Decision Making 180 Behavioral Decision Theory and Behavioral Economics 180 Decision Heuristics 181 Framing 182 Summary 183 applications 183 MarkEtING ExCEllENCE Disney 184 MarkEtING ExCEllENCE IKEA 185 Chapter 7 Analyzing Business Markets 189 What Is Organizational Buying? 189 The Business Market versus the Consumer Market 189 Buying Situations 192 Participants in the Business Buying Process 193 The Buying Center 194 Buying Center Influences 194 Targeting Firms and Buying Centers 195 MarkEtING INSIGht Big Sales to Small Businesses 196 The Purchasing/Procurement Process 197 Stages in the Buying Process 198 Problem Recognition 198 x General Need Description and Product Specification 199 Supplier Search 199 Proposal Solicitation 201 Supplier Selection 201 MarkEtING MEMO Developing Compelling Customer Value Propositions 202 Order-Routine Specification 204 Performance Review 204 Developing Effective Business-to-Business Marketing Programs 204 Communication and Branding Activities 204 Systems Buying and Selling 206 MarkEtING MEMO Spreading the Word with Customer Reference Programs 207 Role of Services 207 Managing Business-to-Business Customer Relationships 208 The Benefits of Vertical Coordination 208 MarkEtING INSIGht Establishing Corporate Trust, Credibility, and Reputation 209 Risks and Opportunism in Business Relationships 209 Institutional and Government Markets 211 Summary 212 applications 213 MarkEtING ExCEllENCE Accenture 213 MarkEtING ExCEllENCE GE 214 Chapter 8 Tapping into Global Markets 217 Competing on a Global Basis 217 Deciding Whether to Go Abroad 219 Deciding Which Markets to Enter 220 How Many Markets to Enter 220 Evaluating Potential Markets 221 Succeeding in Developing Markets 221 Deciding How to Enter the Market 226 Indirect and Direct Export 227 Licensing 227 Joint Ventures 228 Direct Investment 228 Acquisition 228 Deciding on the Marketing Program 229 Global Similarities and Differences 230 Marketing Adaptation 231 Global Product Strategies 232 Global Communication Strategies 235 Global Pricing Strategies 235 Global Distribution Strategies 237 Country-of-Origin Effects 238 Building Country Images 238 Consumer Perceptions of Country of Origin 239 Summary 240 applications 241 MarkEtING ExCEllENCE Twitter 241 MarkEtING ExCEllENCE L'Oréal 242 Part 4 Building Strong Brands 244 Chapter 9 Identifying Market Segments and Targets 245 Bases for Segmenting Consumer Markets 246 Geographic Segmentation 246 Demographic Segmentation 249 Psychographic Segmentation 258 Behavioral Segmentation 259 How Should Business Markets Be Segmented? 261 Market Targeting 262 Effective Segmentation Criteria 263 Evaluating and Selecting the Market Segments 264 MarkEtING INSIGht Chasing the Long Tail 267 MarkEtING MEMO Protecting Kids Online 269 Summary 269 applications 270 MarkEtING ExCEllENCE HSBC 270 MarkEtING ExCEllENCE BMW 272 Chapter 10 Crafting the Brand Positioning 275 Developing a Brand Positioning 275 Understanding Positioning and Value Propositions 275 Choosing a Competitive Frame of Reference 276 Identifying Potential Points-of-Difference and Points-of-Parity 278 xi Choosing Specific POPs and PODs 282 Brand Mantras 285 Establishing a Brand Positioning 287 MarkEtING MEMO Constructing a Brand Positioning Bull's eye 287 Alternative Approaches to Positioning 291 Brand Narratives and Storytelling 291 Cultural Branding 292 Positioning and Branding for A Small Business 292 Summary 295 applications 295 MarkEtING ExCEllENCE Louis Vuitton 296 MarkEtING ExCEllENCE American Express 296 Chapter 11 Creating Brand Equity 299 How Does Branding Work? 299 The Role of Brands 300 The Scope of Branding 301 Defining Brand Equity 302 Brand Equity Models 304 MarkEtING INSIGht Brand Bubble Trouble 306 Building Brand Equity 309 MarkEtING MEMO The Marketing Magic of Characters 310 Designing Holistic Marketing Activities 310 Leveraging Secondary Associations 312 Internal Branding 314 Measuring Brand Equity 315 MarkEtING INSIGht The Brand Value Chain 315 MarkEtING INSIGht What Is a Brand Worth? 317 Managing Brand Equity 318 Brand Reinforcement 318 Brand Revitalization 319 Devising a Branding Strategy 321 Branding Decisions 322 Brand Portfolios 323 Brand Extensions 325 Customer Equity 328 MarkEtING MEMO Twenty-First-Century Branding 329 Summary 330 applications 330 MarkEtING ExCEllENCE McDonald's 331 MarkEtING ExCEllENCE Procter & Gamble 332 Chapter 12 Addressing Competition and Driving Growth 335 Growth Strategies 335 Growing the Core 336 Competitive Strategies for Market Leaders 337 Expanding Total Market Demand 338 Protecting Market Share 339 Increasing Market Share 341 Other Competitive Strategies 342 Market-Challenger Strategies 342 Market-Follower Strategies 344 MarkEtING INSIGht The Costs and Benefits of Fast Fashion 345 Market-Nicher Strategies 346 MarkEtING MEMO Niche Specialist Roles 348 Product Life-Cycle Marketing Strategies 348 Product Life Cycles 348 Style, Fashion, and Fad Life Cycles 349 Marketing Strategies: Introduction Stage and the Pioneer Advantage 351 MarkEtING INSIGht Understanding Double Jeopardy 352 Marketing Strategies: Growth Stage 353 Marketing Strategies: Maturity Stage 354 Marketing Strategies: Decline Stage 355 MarkEtING MEMO Managing a Marketing Crisis 356 Evidence for the Product Life-Cycle Concept 358 Critique of the Product Life-Cycle Concept 359 Market Evolution 359 Marketing in a Slow-Growth Economy 359 Explore the Upside of Increasing Investment 359 Get Closer to Customers 360 Review Budget Allocations 360 Put Forth the Most Compelling Value Proposition 360 Fine-Tune Brand and Product Offerings 361 xii Summary 362 applications 362 MarkEtING ExCEllENCE Samsung 363 MarkEtING ExCEllENCE IBM 364 Part 5 Creating Value 366 Chapter 13 Setting Product Strategy 367 Product Characteristics and Classifications 367 Product Levels: The Customer-Value Hierarchy 367 Product Classifications 369 Differentiation 370 Product Differentiation 371 Services Differentiation 372 Design 374 Design Leaders 374 Power of Design 375 Approaches to Design 375 Luxury Products 376 Characterizing Luxury Brands 376 Growing Luxury Brands 376 MarkEtING INSIGht Marketing Luxury Brands 377 Environmental Issues 378 MarkEtING MEMO A Sip or a Gulp: Environmental Concerns in the Water Industry 379 Product and Brand Relationships 379 The Product Hierarchy 380 Product Systems and Mixes 380 Product Line Analysis 381 Product Line Length 382 MarkEtING INSIGht When Less Is More 383 Product Mix Pricing 386 Co-Branding and Ingredient Branding 387 MarkEtING MEMO Product-Bundle Pricing Considerations 388 Packaging, Labeling, Warranties, and Guarantees 390 Packaging 390 Labeling 392 Warranties and Guarantees 393 Summary 393 applications 394 MarkEtING ExCEllENCE Caterpillar 394 MarkEtING ExCEllENCE Toyota 396 Chapter 14 Designing and Managing Services 399 The Nature of Services 399 Service Industries Are Everywhere 399 Categories of Service Mix 400 Distinctive Characteristics of Services 402 The New Services Realities 406 A Shifting Customer Relationship 406 MarkEtING MEMO Lights! Cameras! Customer Service Disasters! 408 Achieving Excellence In Services Marketing 409 Marketing Excellence 409 Technology and Service Delivery 410 Best Practices of Top Service Companies 411 Differentiating Services 413 MarkEtING INSIGht Improving Company Call Centers 414 Managing Service Quality 417 Managing Customer Expectations 418 MarkEtING MEMO Recommendations for Improving Service Quality 419 Incorporating Self-Service Technologies (SSTS) 421 Managing Product-Support Services 422 Identifying and Satisfying Customer Needs 422 Postsale Service Strategy 423 Summary 423 applications 424 MarkEtING ExCEllENCE The Ritz-Carlton 424 MarkEtING ExCEllENCE Mayo Clinic 426 Chapter 15 Introducing New Market Offerings 429 New-Product Options 429 Make or Buy 429 Types of New Products 430 xiii Challenges in New-Product Development 431 The Innovation Imperative 432 New-Product Success 432 New-Product Failure 433 Organizational Arrangements 434 Budgeting for New-Product Development 434 Organizing New-Product Development 435 Managing the Development Process: Ideas 438 Generating Ideas 438 MarkEtING MEMO Ten Ways to Find Great New-Product Ideas 438 MarkEtING INSIGht P&G'S Connect + Develop Approach to Innovation 439 MarkEtING MEMO Seven Ways to Draw New Ideas from Your Customers 440 MarkEtING MEMO How to Run a Successful Brainstorming Session 442 Using Idea Screening 443 Managing the Development Process: Concept to Strategy 445 Concept Development and Testing 445 Marketing Strategy Development 448 Business Analysis 448 Managing the Development Process: Development to Commercialization 450 Product Development 450 Market Testing 451 Commercialization 453 The Consumer-Adoption Process 454 Stages in the Adoption Process 454 Factors Influencing the Adoption Process 454 Summary 456 applications 457 MarkEtING ExCEllENCE Apple 457 MarkEtING ExCEllENCE Salesforce.com 459 Chapter 16 Developing Pricing Strategies and Programs 461 Understanding Pricing 461 Pricing in a Digital World 462 A Changing Pricing Environment 462 MarkEtING INSIGht Giving It All Away 463 How Companies Price 464 Consumer Psychology and Pricing 465 Setting the Price 467 Step 1: Selecting the Pricing Objective 467 MarkEtING INSIGht Trading Up, Down, and Over 468 Step 2: Determining Demand 470 Step 3: Estimating Costs 472 MarkEtING MEMO How to Cut Costs 474 Step 4: Analyzing Competitors' Costs, Prices, and Offers 474 Step 5: Selecting a Pricing Method 475 Step 6: Selecting the Final Price 480 MarkEtING INSIGht Stealth Price Increases 481 Adapting the Price 482 Geographical Pricing (Cash, Countertrade, Barter) 482 Price Discounts and Allowances 482 Promotional Pricing 483 Differentiated Pricing 484 Initiating and Responding to Price Changes 485 Initiating Price Cuts 485 Initiating Price Increases 486 Anticipating Competitive Responses 486 Responding to Competitors' Price Changes 487 Summary 488 applications 488 MarkEtING ExCEllENCE eBay 489 MarkEtING ExCEllENCE Southwest Airlines 490 Part 6 Delivering Value 492 Chapter 17 Designing and Managing Integrated Marketing Channels 493 Marketing Channels and Value Networks 494 The Importance of Channels 494 Multichannel Marketing 494 Integrating Multichannel Marketing Systems 495 Value Networks 497 The Digital Channels Revolution 498 The Role of Marketing Channels 499 Channel Functions and Flows 500 Channel Levels 501 Service Sector Channels 502 xiv Channel-Design Decisions 503 Analyzing Customer Needs and Wants 503 MarkEtING INSIGht Understanding the Showrooming Phenomena 503 Establishing Objectives and Constraints 504 Identifying Major Channel Alternatives 505 Evaluating Major Channel Alternatives 507 Channel-Management Decisions 508 Selecting Channel Members 508 Training and Motivating Channel Members 508 Evaluating Channel Members 509 Modifying Channel Design and Arrangements 510 Channel Modification Decisions 510 Global Channel Considerations 510 Channel Integration and Systems 512 Vertical Marketing Systems 512 Horizontal Marketing Systems 514 E-Commerce Marketing Practices 514 Pure-Click Companies 514 Brick-and-Click Companies 515 M-Commerce Marketing Practices 516 Changes in Customer and Company Behavior 517 M-Commerce Marketing Practices 517 Privacy 518 Conflict, Cooperation, and Competition 518 Types of Conflict and Competition 519 Causes of Channel Conflict 519 Managing Channel Conflict 519 Dilution and Cannibalization 521 Legal and Ethical Issues in Channel Relations 521 Summary 521 applications 522 MarkEtING ExCEllENCE Amazon.com 522 MarkEtING ExCEllENCE Costco 524 Chapter 18 Managing Retailing,Wholesaling, and Logistics 527 Retailing 527 Types of Retailers 528 MarkEtING MEMO Innovative Retail Organizations 529 The Modern Retail Marketing Environment 532 MarkEtING INSIGht The Growth of Shopper Marketing 534 Marketing Decisions 535 MarkEtING MEMO Helping Stores to Sell 540 Private Labels 541 Role of Private Labels 542 Private-Label Success Factors 542 MarkEtING INSIGht Manufacturer's Response to the Private-Label Threat 543 Wholesaling 543 Trends in Wholesaling 545 Market Logistics 545 Integrated Logistics Systems 546 Market-Logistics Objectives 547 Market-Logistics Decisions 548 Summary 551 applications 552 MarkEtING ExCEllENCE Zara 552 MarkEtING ExCEllENCE Best Buy 554 Part 7 Communicating Value 556 Chapter 19 Designing and Managing Integrated Marketing Communications 557 The Role of Marketing Communications 558 The Changing Marketing Communications Environment 558 MarkEtING INSIGht Don't Touch That Remote 558 Marketing Communications Mix 559 How Do Marketing Communications Work? 561 The Communications Process Models 562 Developing Effective Communications 564 Identify the Target Audience 564 Set the Communications Objectives 565 Design the Communications 565 Select the Communications Channels 568 MarkEtING MEMO Celebrity Endorsements as a Message Strategy 569 MarkEtING INSIGht Playing Tricks to Build a Brand 571 xv Establish the Total Marketing Communications Budget 572 Selecting the Marketing Communications Mix 573 Characteristics of the Marketing Communications Mix 574 Factors in Setting the Marketing Communications Mix 575 Measuring Communication Results 577 Managing the Integrated Marketing Communications Process 577 Coordinating Media 579 Implementing IMC 579 MarkEtING MEMO How Integrated Is Your IMC Program? 579 Summary 580 applications 581 MarkEtING ExCEllENCE Red Bull 581 MarkEtING ExCEllENCE Target 582 Chapter 20 Managing Mass Communications: Advertising, Sales Promotions, Events and Experiences, and Public Relations 585 Developing and Managing an Advertising Program 586 Setting the Advertising Objectives 587 Deciding on the Advertising Budget 587 Developing the Advertising Campaign 588 MarkEtING MEMO Print Ad Evaluation Criteria 590 MarkEtING INSIGht Off-Air Ad Battles 592 Choosing Media 593 MarkEtING INSIGht Playing Games with Brands 596 MarkEtING MEMO Winning The Super Bowl of Advertising 597 Evaluating Advertising Effectiveness 599 Sales Promotion 600 Advertising Versus Promotion 600 Major Decisions 601 Events and Experiences 604 Events Objectives 604 Major Sponsorship Decisions 605 MarkEtING MEMO Measuring High- Performance Sponsorship Programs 606 Creating Experiences 606 Public Relations 607 Marketing Public Relations 607 Major Decisions in Marketing PR 608 Summary 609 applications 610 MarkEtING ExCEllENCE Coca-Cola 610 MarkEtING ExCEllENCE Gillette 612 Chapter 21 Managing Digital Communications: Online, Social Media, and Mobile 615 Online Marketing 615 Advantages and Disadvantages of Online Marketing Communications 616 Online Marketing Communication Options 617 MarkEtING MEMO How to Maximize the Marketing Value of E-mails 620 Social Media 620 Social Media Platforms 621 Using Social Media 622 Word of Mouth 623 Forms of Word of Mouth 624 Creating Word-of-Mouth Buzz 624 MarkEtING MEMO How to Start a Buzz Fire 626 MarkEtING INSIGht Tracking Online Buzz 627 Measuring the Effects of Word of Mouth 628 Mobile Marketing 628 The Scope of Mobile Marketing 628 Developing Effective Mobile Marketing Programs 629 Mobile Marketing across Markets 629 Summary 630 applications 631 MarkEtING ExCEllENCE Facebook 631 MarkEtING ExCEllENCE Unilever (Axe and Dove) 632 xvi Chapter 22 Managing Personal Communications: Direct and Database Marketing and Personal Selling 635 Direct Marketing 635 The Benefits of Direct Marketing 636 Direct Mail 637 Catalog Marketing 638 Telemarketing 638 Other Media for Direct-Response Marketing 639 Public and Ethical Issues in Direct Marketing 639 Customer Databases and Database Marketing 640 Customer Databases 640 Data Warehouses and Data Mining 640 The Downside of Database Marketing 642 Designing the Sales Force 642 Sales Force Objectives and Strategy 644 Sales Force Structure 645 MarkEtING INSIGht Major Account Management 646 Sales Force Size 646 Sales Force Compensation 646 Managing the Sales Force 647 Recruiting and Selecting Representatives 647 Training and Supervising Sales Representatives 647 Sales Rep Productivity 648 Motivating Sales Representatives 648 Evaluating Sales Representatives 649 Principles of Personal Selling 651 The Six Steps 651 Relationship Marketing 652 Summary 653 applications 653 MarkEtING ExCEllENCE Progressive 654 MarkEtING ExCEllENCE Victoria's Secret 655 Part 8 Conducting Marketing Responsibly for Long-Term Success 656 Chapter 23 Managing a Holistic Marketing Organization for the Long Run 657 Trends in Marketing Practices 657 Internal Marketing 658 MarkEtING MEMO Characteristics of Company Departments That Are Truly Customer Driven 659 Organizing the Marketing Department 660 Relationships with Other Departments 662 Building a Creative Marketing Organization 662 MarkEtING INSIGht The Marketing CEO 663 Socially Responsible Marketing 663 Corporate Social Responsibility 664 MarkEtING

INSIGhT The Rise of Organic 667 Socially Responsible Business Models 668 Cause-Related Marketing 668 MarkETING MEMO Making a Difference: Top 10 Tips for Cause Branding 671 Social Marketing 672 Marketing Implementation and Control 675 Marketing Implementation 675 Marketing Control 675 The Future of Marketing 680 MarkETING MEMO Major Marketing Weaknesses 682 Summary 683 applications 683 MarkETING ExCEllENCE Starbucks 684 MarkETING ExCEllENCE Virgin Group 685 appendix Tools for Marketing Control 687 appendix: Sonic Marketing Plan and Exercises a1 Endnotes E1 Glossary G1 Name Index I1 Company, Brand, and Organization Index I5 Subject Index I18 xvii Preface What's New in the 15th Edition The 15th edition of Marketing Management is a landmark entry in the long successful history of the market leader. With the 15th edition, great care was taken to produce an introductory guide to marketing management that truly reflects the modern realities of marketing. In doing so, classic concepts, guidelines, and examples were retained while new ones were added as appropriate. Three broad forces—globalization, technology, and social responsibility—were identified as critical to the success of modern marketing programs. These three topics are evident all through the text. As has been the case for a number of editions now, the overriding goal of the revision for the 15th edition of Marketing Management was to create as comprehensive, current, and engaging a MBA marketing textbook as possible. Where appropriate, new material was added, old material was updated, and no longer relevant or necessary material was deleted. Even though marketing is changing in many significant ways these days, many core elements remain, and we feel strongly that a balanced approach of classic and contemporary approaches and perspectives is the way to go. Marketing Management, 15th edition, allows those instructors who have used the 14th edition to build on what they have learned and done while at the same time offering a text that is unsurpassed in breadth, depth, and relevance for students experiencing Marketing Management for the first time. The successful across-chapter reorganization into eight parts that began with the 12th edition of Marketing Management has largely been preserved, although several adjustments have been made to improve student understanding, as described below. Many of the favorably received within-chapter features that have been introduced through the years, such as topical chapter openers, in-text boxes highlighting noteworthy compa- nies or issues, and the Marketing Insight and Marketing Memo boxes that provide in-depth conceptual and practical commentary, have been retained. Significant changes to the 15th edition include: • Brand-new opening vignettes for each chapter set the stage for the chapter material to follow. By covering topical brands or companies, the vignettes are great classroom discussion starters. • Almost half of the in-text boxes are new. These boxes provide vivid illustrations of chapter concepts using actual companies and situations. The boxes cover a variety of products, services, and markets, and many have accompanying illustrations in the form of ads or product shots. • Each end-of-chapter section now includes two expanded Marketing Excellence mini-cases highlighting innovative, insightful marketing accomplishments by leading organizations. Each case includes questions that promote classroom discussion and student analysis. • The global chapter (8, previously Chapter 21) has been moved up front to Part 3 on Connecting with Customers and the new products chapter (15, previously Chapter 20) has been moved into Part 5 on Creating Value. The positioning and brand chapters (10 and 11) have been switched to allow for the conventional STP sequencing. These moves permit richer coverage of the topics and better align with many instructors' teaching strategy. • A new chapter (21) titled Managing Digital Communications: Online, Social Media, and Mobile has been added to better highlight that important topic. Significant attention is paid throughout the text to what a new section in Chapter 1 calls "the digital revolution." • The concluding chapter (23) has been retitled "Managing a Holistic Marketing Organization for the Long Run" and addresses corporate social responsibility, business ethics, and sustainability, among other topics. • Chapter 12 (previously Chapter 11) has been retitled "Addressing Competition and Driving Growth" to acknowledge the importance of growth to an organization. What Is Marketing Management All About? Marketing Management is the leading marketing text because its content and organization consistently reflect changes in marketing theory and practice. The very first edition of Marketing Management, published in 1967, introduced the concept that companies must be customer and market driven. But there was little mention of what have now become fundamental topics such as segmentation, targeting, and positioning. Concepts such as brand equity, customer value analysis, database marketing, e-commerce, value networks, hybrid channels, supply chain management, and integrated marketing communications were not even part of the marketing vocabulary then. Marketing Management continues to reflect the changes in the marketing discipline over the past almost 50 years. Firms now sell goods and services through a variety of direct and indirect channels. Mass advertis- ing is not nearly as effective as it was, so marketers are exploring new forms of communication, such as experiential, entertainment, and viral marketing. Customers are telling companies what types of product or services they want and when, where, and how they want to buy them. They are increasingly reporting to other consumers what they think of specific companies and products—using e-mail, blogs, podcasts, and other digital media to do so. Company messages are becoming a smaller fraction of the total "conversation" about products and services. In response, companies have shifted gears from managing product portfolios to managing customer portfolios, compiling databases on individual customers so they can understand them better and construct individualized offerings and messages. They are doing less product and service standardization and more niching and customization. They are replacing monologues with customer dialogues. They are improving their methods of measuring customer profitability and customer lifetime value. They are intent on measur- ing the return on their marketing investment and its impact on shareholder value. They are also concerned with the ethical and social implications of their marketing decisions. As companies change, so does their marketing organization. Marketing is no longer a company depart- ment charged with a limited number of tasks—it is a company-wide undertaking. It drives the company's vision, mission, and strategic planning. Marketing includes decisions like whom the company wants as its customers, which of their needs to satisfy, what products and services to offer, what prices to set, what communications to send and receive, what channels of distribution to use, and what partnerships to develop. Marketing succeeds only when all departments work together to achieve goals: when engineering designs the right products; finance furnishes the required funds; purchasing buys high-quality materials; produc- tion makes high-quality products on time; and accounting measures the profitability of different customers, products, and areas. To address all these different shifts, good marketers are practicing holistic marketing. Holistic marketing is the development, design, and implementation of marketing programs, processes, and activities that recog- nize the breadth and interdependencies of today's marketing environment. Four key dimensions of holistic marketing are: 1. Internal marketing—ensuring everyone in the organization embraces appropriate marketing principles, especially senior management. 2. Integrated marketing—ensuring that multiple means of creating, delivering, and communicating value are employed and combined in the best way. 3. Relationship marketing—having rich, multifaceted relationships with customers, channel members, and other marketing partners. 4. Performance marketing—understanding returns to the business from marketing activities and programs, as well as addressing broader concerns and their legal, ethical, social, and environmental effects. These four dimensions are woven throughout the book and at times spelled out explicitly. The text is organized to specifically address the following eight tasks that constitute modern marketing management in the 21st century: 1. Developing marketing strategies and plans 2. Capturing marketing insights 3. Connecting with customers 4. Building strong brands 5. Creating value 6. Delivering value 7. Communicating value 8. Conducting marketing responsibly for long-term success xix What Makes Marketing Management the Marketing Leader? Marketing is of interest to everyone, whether they are marketing goods, services, properties, persons, places, events, information, ideas, or organizations. As it has maintained its respected position among students, educators, and businesspeople, Marketing Management has kept up to date and contemporary. Students (and instructors) feel that the book is talking directly to them in terms of both content and delivery. Marketing Management owes its marketplace success to its ability to maximize three dimensions that characterize the best marketing texts—depth, breadth, and relevance—as measured by the following criteria: • Depth. Does the book have solid academic grounding? Does it contain important theoretical concepts, models, and frameworks? Does it provide conceptual guidance to solve practical problems? • Breadth. Does the book cover all the right topics? Does it provide the proper amount of emphasis on those topics? • Relevance. Does the book engage the reader? Is it interesting to read? Does it have lots of compelling examples? The 15th edition builds on the fundamental strengths of past editions that collectively distinguish it from all other marketing management texts: • Managerial orientation. The book focuses on the major decisions that marketing managers and top management face in their efforts to harmonize the organization's objectives, capabilities, and resources with marketplace needs and opportunities. • Analytical approach. Marketing Management presents conceptual tools and frameworks for analyz- ing recurring problems in marketing management. Cases and examples illustrate effective marketing principles, strategies, and practices. • Multidisciplinary perspective. The book draws on the rich findings of various scientific disciplines— economics, behavioral science, management theory, and mathematics—for fundamental concepts and tools directly applicable to marketing challenges. • Universal applications. The book applies strategic thinking to the complete spectrum of marketing: products, services, persons, places, information, ideas, and causes; consumer and business markets; profit and nonprofit organizations; domestic and foreign companies; small and large firms; manufacturing and intermediary businesses; and low- and high-tech industries. • Comprehensive and balanced coverage. Marketing Management covers all the topics an informed marketing manager needs to understand to execute strategic, tactical, and administrative marketing. Instructor Resources At the Instructor Resource Center, www.pearsonhighered.com/irc, instructors can easily register to gain access to a variety of instructor resources available with this text in downloadable format. If assistance is needed, our dedicated technical support team is ready to help with the media supplements that accompany this text. Visit for answers to frequently asked questions and toll-free user support phone numbers. The following supplements are available with this text: • Instructor's Resource Manual • Test Bank • TestGen® Computerized Test Bank • PowerPoint Presentation • Instructor Video Library • Image Library xx acknowledgments the 15th edition bears the imprint of many people. From Phil Kotler: My colleagues and associates at the Kellogg School of Management at Northwestern University continue to have an important impact on my thinking: Nidhi Agrawal, Eric T. Anderson, James C. Anderson, Robert C. Blattberg, Miguel C. Brendl, Bobby J. Calder, Gregory S. Carpenter, Alex Chernev, Anne T. Coughlan, David Gal, Kent Grayson, Karsten Hansen, Dipak C. Jain, Lakshman Krishnamurti, Angela Lee, Vincent Nijs, Yi Qian, Mohanbir S. Sawhney, Louis W. Stern, Brian Sternthal, Alice M. Tybout, and Andris A. Zoltners. I also want to thank the S. C. Johnson Family for the generous support of my chair at the Kellogg School. Completing the Northwestern team are my former Deans, Donald P. Jacobs and Dipak Jain and my current Dean, Sally Blount, for provid- ing generous support for my research and writing. Several former faculty members of the marketing department had a great influence on my think- ing: Steuart Henderson Britt, Richard M. Clewett, Ralph Westfall, Harper W. Boyd, Sidney J. Levy, John Sherry, and John Hauser. I also want to acknowledge Gary Armstrong for our work on Principles of Marketing. I am indebted to the following coauthors of international editions of Marketing Management and Principles of Marketing who have taught me a great deal as we worked together to adapt marketing manage- ment thinking to the problems of different nations: • Swee-Hoon Ang and Siew-Meng Leong, National University of Singapore • Chin-Tiong Tan, Singapore Management University • Friedhelm W. Bliemel, Universitat Kaiserslautern (Germany) • Linden Brown; Stewart Adam, Deakin University; Suzan Burton: Macquarie Graduate School of Management, and Sara Denize, University of Western Sydney (Australia) • Bernard Dubois, Groupe HEC School of Management (France) and Delphine Manceau, ESCP-EAP European School of Management • John Saunders, Loughborough University and Veronica Wong, Warwick University (United Kingdom) • Jacob Hornick, Tel Aviv University (Israel) • Walter Giorgio Scott, Universita Cattolica del Sacro Cuore (Italy) • Peggy Cunningham, Queen's University (Canada) I also want to acknowledge how much I have learned from working with coauthors on more special- ized marketing subjects: Alan Andreasen, Christer Asplund, Paul N. Bloom, John Bowen, Roberta C. Clarke, Karen Fox, David Gertner, Michael Hamlin, Thomas Hayes, Donald Haider, Hooi Den Hua, Dipak Jain, Somkid Jatusripitak, Hermawan Kartajaya, Milton Kotler, Neil Kotler, Nancy Lee, Sandra Liu, Suvit Maesincee, James Maken, Waldemar Pfoertsch, Gustave Rath, Irving Rein, Eduardo Roberto, Joanne Scheff, Norman Shawchuck, Joel Shalowitz, Ben Shields, Francois Simon, Robert Stevens, Martin Stoller, Fernando Trias de Bes, Bruce Wrenn, and David Young. My overriding debt continues to be to my lovely wife, Nancy, who provided me with the time, support, and inspiration needed to prepare this edition. It is truly our book. From Kevin Lane Keller: I continually benefit from the wisdom of my marketing colleagues at Tuck— Punam Keller, Scott Neslin, Kusum Ailawadi, Praveen Kopalle, Peter Golder, Ellie Kyung, Yaniv Dover, Eesha Sharma, Fred Webster, Gert Assmus, and John Farley—as well as the leadership of Dean Paul Danos. I also gratefully acknowledge the invaluable research and teaching contributions from my faculty colleagues and collaborators through the years. I owe a considerable debt of gratitude to Duke University's Jim Bettman and Rick Staelin for helping to get my academic career started and serving as positive role models to this day. I am also appreciative of all that I have learned from working with many industry executives who have generously shared their insights and experiences. With this 15th edition, I received some extremely help- ful research assistance from a talented group of Dartmouth undergraduate RAs—Caroline Buck, James Carlson, Ryan Galloway, Jack Heise, Jeff Keller, Jill Lyon, Richard Newsome-White, Rahul Raina, and Cameron Woodworth, —who were as accurate, thorough, dependable, and cheerful as you could possibly imagine. Alison Pearson provided superb administrative support. Finally, I give special thanks to Punam, my wife, and Carolyn and Allison, my daughters, who make it all happen and make it all worthwhile. xxi We are indebted to the following colleagues at other universities who reviewed this new edition: • Jennifer Barr, Richard Stockton College • Lawrence Kenneth Duke, Drexel University LeBow College of Business • Barbara S. Faries, Mission College, Santa Clara, CA • William E. Fillner, Hiram College • Frank J. Franzak,Virginia Commonwealth University • Robert Galka, De Paul University • Albert N. Greco, Fordham University • John A. Hobbs, University of Oklahoma • Brian Larson,Widener University • Anthony Racka, Oakland Community College, Auburn • Hills, MI • Jamie Ressler, Palm Beach Atlantic University • James E. Shapiro, University of New Haven • George David Shows, Louisiana Tech University We would also like to thank colleagues who have reviewed previous editions of Marketing Management: Homero Aguirre, TAMIU Alan Au, University of Hong Kong Hiram Barksdale, University of Georgia Boris Becker, Oregon State University Sandy Becker, Rutgers University Parimal Bhagat, Indiana University of Pennsylvania Sunil Bhatla, Case Western Reserve University Michael Bruce, Anderson University Frederic Brunel, Boston University John Burnett, University of Denver Lisa Cain, University of California at Berkeley and Mills College Surjit Chhabra, DePaul University Yun Chu, Frostburg State University Dennis Clayson, University of Northern Iowa Bob Cline, University of Iowa Brent Cunningham, Jacksonville State University Hugh Daubek, Purdue University John Deighton, University of Chicago Kathleen Dominick, Rider University Tad Duffy, Golden Gate University Mohan Dutta, Purdue University Barbara Dyer, University of North Carolina at Greensboro Jackkie Eastman,Valdosta State University Steve Edison, University of Arkansas–Little Rock Alton Erdem, University of Houston at Clear Lake Elizabeth Evans, Concordia University Barb Finer, Suffolk University Chic Fojtik, Pepperdine University Renee Foster, Delta State University Ralph Gaedeke, California State University, Sacramento Robert Galka, De Paul University Betsy Gelb, University of Houston at Clear Lake Dennis Gensch, University of Wisconsin, Milwaukee David Georgoff, Florida Atlantic University Rashi Glazer, University of California, Berkeley Bill Gray, Keller Graduate School of Management Barbara Gross, California State University at Northridge Lewis Hershey, Fayetteville State University Thomas Hewett, Kaplan University Mary Higby, University of Detroit–Mercy Arun Jain, State University of New York, Buffalo Michelle Kunz, Morehead State University Eric Langer, Johns Hopkins University Even Lanseng, Norwegian School of Management Ron Lennon, Barry University Michael Lodato, California Lutheran University Henry Loehr, Pfeiffer University–Charlotte Bart Macchiette, Plymouth University Susan Mann, Bluefield State College Charles Martin,Wichita State University H. Lee Matthews, Ohio State University xxii Paul McDevitt, University of Illinois at Springfield Mary Ann McGrath, Loyola University, Chicago John McKeever, University of Houston Kenneth P. Mead, Central Connecticut State University Henry Metzner, University of Missouri, Rolla Robert Mika, Monmouth University Mark Mitchell, Coastal Carolina University Francis Mulhern, Northwestern University Pat Murphy, University of Notre Dame Jim Murrow, Drury College Zhou Nan, University of Hong Kong Nicholas Nugent, Boston College Nnamdi Osakwe, Bryant & Stratton College Donald Outland, University of Texas, Austin Albert Page, University of Illinois, Chicago Young-Hoon Park, Cornell University Koen Pauwels, Dartmouth College Lisa Klein Pearo, Cornell University Keith Penney, Webster University Patricia Perry, University of Alabama Mike Powell, North Georgia College and State University Hank Pruden, Golden Gate University Christopher Puto, Arizona State University Abe Qstin, Lakeland University Lopo Rego, University of Iowa Richard Rexeisen, University of St. Thomas William Rice, California State University–Fresno Scott D. Roberts, Northern Arizona University Bill Robinson, Purdue University Robert Roe, University of Wyoming Jan Napoleon Saykiewicz, Duquesne University Larry Schramm, Oakland University Alex Sharland, Hofstra University Dean Siewers, Rochester Institute of Technology Anusorn Singhapakdi, Old Dominion University Jim Skertich, Upper Iowa University Allen Smith, Florida Atlantic University Joe Spencer, Anderson University Mark Spriggs, University of St. Thomas Nancy Stephens, Arizona State University Michael Swenso, Brigham Young University, Marriott School Thomas Tellefsen, The College of Staten Island–CUNY Daniel Turner, University of Washington Sean Valentine, University of Wyoming Ann Veeck, West Michigan University R.Venkatesh, University of Pittsburgh Edward Volchok, Stevens Institute of Management D. J. Wasmer, St. Mary-of-the-Woods College Zac Williams, Mississippi State University Greg Wood, Canisius College Kevin Zeng Zhou, University of Hong Kong A warm welcome and many thanks to the following people who contributed to the global case studies developed for the 14th edition: Mairead Brady, Trinity College John R. Brooks, Jr., Houston Baptist University Sylvain Charlebois, University of Regina Geoffrey da Silva, Temasek Business School Malcolm Goodman, Durham University Torben Hansen, Copenhagen Business School Abraham Koshy, Sanjeev Tripathi, and Abhishek, Indian Institute of Management Ahmedabad Peter Ling, Edith Cowan University Marianne Marando, Seneca College Lu Taihong, Sun Yat-Sen University The talented staff at Pearson deserves praise for their role in shaping the 15th edition. We want to thank our editor, Mark Gaffney, for his contribution to this revision, as well as our program manager, Jennifer M. Collins. We also want to thank our project manager, Becca Groves, for making sure everything was moving along and falling into place in such a personable way, both with regard to the book and supple- ments. We benefited greatly from the superb editorial help of Elisa Adams, who lent her considerable talents as a development editor to this edition. We also thank our marketing managers, Anne Fahlgren and Lenny Ann Raper. Certainly, we are grateful for the editorial support provided by Daniel Petrino. Lastly, we'd like to thank the following MyLab contributors: Susan C. Schanne, School of Management, Eastern Michigan University, and Barbara S. Faries, MBA, Mission College, Santa Clara. Philip Kotler S. C. Johnson Distinguished Professor of International Marketing, Kellogg School of Management, Northwestern University, Evanston, Illinois Kevin Lane Keller E. B. Osborn Professor of Marketing, Tuck School of Business, Dartmouth College, Hanover, New Hampshire 2 In This Chapter, We Will Address the Following Questions 1. Why is marketing important? (p. 3) 2. What is the scope of marketing? (p. 5) 3. What are some core marketing concepts? (p. 9) 4. What forces are defining the new marketing realities? (p. 13) 5. What new capabilities have these forces given consumers and companies? (p. 16) 6. What does a holistic marketing philosophy include? (p. 20) 7. What tasks are necessary for successful marketing management? (p. 27) Understanding Marketing ManagementPart 1 Unilever is fundamentally changing how it is doing its marketing, including putting more emphasis on developing markets. Source: Bloomberg via Getty Images Chapter 1 Defining Marketing for the New Realities Chapter 2 Developing Marketing Strategies and Plans Improve Your Grade! Over 10 million students improved their results using the Pearson MyLabs. Visit mymktlab.com for simulations, tutorials, and end-of-chapter problems. MyMarketingLab™ 3 The Value of Marketing Finance, operations, accounting, and other business functions won't really matter without sufficient demand for products and services so the firm can make a profit. In other words, there must be a top line for there to be a bottom line. Thus, financial success often depends on marketing ability. Marketing's value extends to society as a whole. It has helped introduce new or enhanced products that ease or enrich people's lives. Successful marketing builds demand for products and services, which, in turn, creates jobs. By contributing to the bottom line, success- ful marketing also allows firms to more fully engage in socially responsible activities.2 MarketInG DecIsIon MakInG CEOs recognize that marketing builds strong brands and a loyal customer base, intangible assets that contrib- ute heavily to the value of a firm.3 Many firms, even service and nonprofit, now have a chief marketing officer (CMO) to put marketing on a more equal footing with other C-level executives such as the chief financial officer (CFO) or chief information officer (CIO).4 Good marketing is no accident. It is both an art and a science, and it results from careful planning and execution using state-of-the-art tools and techniques. In this book, we describe how skillful marketers are updating classic practices and inventing new ones to find creative, practical solutions to new marketing realities. In the first chapter, we lay our foundation by reviewing important marketing concepts, tools, frameworks, and issues. Formally and informally, people and organizations engage in a vast number of activities we can call marketing. In the face of a digital revolution and other major changes in the business environment, good marketing today is both increasingly vital and radically new. Consider Unilever.1 Under the leadership of ex-P&G marketing executive Paul Polman and marketing whiz Keith Weed, Unilever is steering in an aggressive new direction. Its new marketing model "Crafting Brands for Life" establishes social, economic, and product missions for each brand, including Dove, Ben & Jerry's, Lifebuoy, and Knorr. Polman states, "I have a vision of all of our brands being a force for good, with each having over a billion fans or more to help drive change." One part of the mission, for instance, is sustainability—specifically, to halve its ecological footprint while doubling revenues. To improve advertising and marketing communications, it aims to strike a balance between "magic" and "logic," doubling marketing training expenditures and emphasizing ad research. To better understand the digital world, CMO Weed took 26 top marketing executives to Silicon Valley to visit Google, Facebook, and Hulu and led a similar group to visit Hollywood executives at Disney and Universal. Unile- ver has set its sights on developing and emerging (D&E) markets, hoping to grow 15 percent to 20 percent annually in China and to draw 70 percent to 75 percent of business from D&E markets by 2020. The company has also adopted "reverse innovation" by apply- ing branding and packaging innovations from developing markets to recession-hit developed markets. In Spain, it now sells Surf deter- gent in five-wash packs. In Greece, it offers mashed potatoes and mayonnaise in small packages. Defining Marketing for the New Realities 1 4 PART 1 | UndeRsTAnding MARkeTing MAnAgeMenT In an Internet-fueled environment where consumers, competition, technology, and economic forces change rapidly and consequences quickly multiply, marketers must choose features, prices, and markets and decide how much to spend on advertising, sales, and online and mobile marketing. Meanwhile, the economic downturn that began globally in 2008 and the sluggish recovery since have brought budget cuts and intense pressure to make every marketing dollar count. There is little margin for error in marketing. Just a short time ago, MySpace, Yahoo!, Blockbuster, and Barnes & Noble were admired leaders in their industries. What a difference a few years can make! Each of these brands has been completely overtaken by an upstart challenger—Facebook, Google, Netflix, and Amazon—and they now struggle, sometimes unsuccessfully, for mere survival. Firms must constantly move forward. At greatest risk are those that fail to carefully monitor their customers and competitors, continuously improve their value offerings and marketing strategies, or satisfy their employees, stockholders, suppliers, and channel partners in the process. WInnInG MarketInG Skillful marketing is a never-ending pursuit, but some businesses are adapting and thriving in these changing times. Consider American Express. 5 AMericAn exPress: sMALL Business sAturdAy Launched in 2010 via radio and TV ads, social media, and PR, American Express's Small Business Saturday program encouraged people to shop at smaller, local retailers on the Saturday after Thanksgiving. Among businesses that participated, sales rose 28 percent. In 2012, American Express provided social media marketing kits, e-mail templates, and signage to help spread the word. More than 350 small business organizations supported the initiative, more than 3 million users "liked" the Small Business Saturday Facebook page, and 213,000 related tweets were posted on Twitter. President Obama tweeted, "Today, sup- port small businesses in your community by shopping at your favorite store" and took his daughters to local bookstores. American Express cardholders got a $25 rebate for shopping at local, independent stores on Small Business Saturday. The company reported a roughly 21 percent increase in transactions for both 2011 and 2012 due to the program. Other top marketers are following suit. Using a Web-only campaign, BMW claimed a $110 million revenue gain for its 1-series. More than 3 million people saw a five-video teaser campaign, and 20,000 gave their contact details. BMW also targeted influential bloggers and used feedback from social media as input to styling and sales forecasts.6 Even business-to-business firms are getting into the action. Corning has struggled transcending its reputa- tion as sellers of Pyrex cookware—a business it sold more than a decade ago—to its current status as makers of highly engineered specialty glass and ceramic products. To expand the vision on Wall Street as a company with a rich portfolio, Corning created a YouTube video, "A Day Made of Glass . . . Made Possible by Corning." Unconventionally long but beautifully put together, within three weeks it attracted more than a million views. Much of the social conversation it created revolved around themes of glass, product toughness, and hope for the future—exactly what Corning wanted.7 So ur ce : W ire Im ag e fo r A m er ic an E xp re ss American Express' Small Business Saturday has struck a chord with consumers, including TV celebrity Katie Couric. defining MARkeTing foR The new ReAliTies | chapter 1 5 The Scope of Marketing To be a marketer, you need to understand what marketing is, how it works, who does it, and what is marketed. What Is MarketInG? Marketing is about identifying and meeting human and social needs. One of the shortest good definitions of marketing is "meeting needs profitably." When Google recognized that people needed to more effectively and efficiently access information on the Internet, it created a powerful search engine that organized and prioritized queries. When IKEA noticed that people wanted good furnishings at substantially lower prices, it created knock- down furniture. These two firms demonstrated marketing savvy and turned a private or social need into a profit- able business opportunity. The American Marketing Association offers the following formal definition: Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.8 Coping with these exchange processes calls for a considerable amount of work and skill. Marketing management takes place when at least one party to a potential exchange thinks about the means of achieving desired responses from other parties. Thus, we see marketing management as the art and science of choosing target markets and getting, keeping, and growing customers through creating, delivering, and communicating superior customer value. We can distinguish between a social and a managerial definition of marketing. A social definition shows the role marketing plays in society; for example, one marketer has said that marketing's role is to "deliver a higher standard of living." Here is a social definition that serves our purpose: Marketing is a societal process by which individuals and groups obtain what they need and want through creating, offering, and freely exchanging products and services of value with others. Cocreation of value among consumers and with businesses and the importance of value creation and sharing have become important themes in the development of modern marketing thought.9 Managers sometimes think of marketing as "the art of selling products," but many people are surprised when they hear that selling is not the most important part of marketing! Selling is only the tip of the marketing iceberg. Peter Drucker, famed management theorist, put it this way:10 There will always, one can assume, be need for some selling. But the aim of marketing is to make selling superfluous. The aim of marketing is to know and understand the customer so well that the product or service fits him and sells itself. Ideally, marketing should result in a customer who is ready to buy. All that should be needed then is to make the product or service available. When Nintendo designed its Wii game system, when Apple launched its iPad tablet computer, and when Toyota introduced its Prius hybrid automobile, these manufacturers were swamped with orders because they had designed the right product, based on careful marketing homework about consumers, competition, and all the external fac- tors that affect cost and demand. What Is MarketeD? Marketers market 10 main types of entities: goods, services, events, experiences, persons, places, properties, orga- nizations, information, and ideas. Let's take a quick look at these categories. Goods Physical goods constitute the bulk of most countries' production and marketing efforts. Each year, U.S. companies market billions of fresh, canned, bagged, and frozen food products and millions of cars, refrigerators, televisions, machines, and other mainstays of a modern economy. Services As economies advance, a growing proportion of their activities focuses on the production of services. The U.S. economy today produces a services-to-goods mix of roughly two-thirds to one-third.11 Services include the work of airlines, hotels, car rental firms, barbers and beauticians, maintenance and repair people, and accountants, bankers, lawyers, engineers, doctors, software programmers, and management consultants. Many market offerings mix goods and services, such as a fast-food meal. events Marketers promote time-based events, such as major trade shows, artistic performances, and company anniversaries. Global sporting events such as the Olympics and the World Cup are promoted aggressively to companies and fans. Local events include craft fairs, bookstore readings, and farmer's markets. experiences By orchestrating several services and goods, a firm can create, stage, and market experiences. Walt Disney World's Magic Kingdom lets customers visit a fairy kingdom, a pirate ship, or a haunted house. 6 PART 1 | UndeRsTAnding MARkeTing MAnAgeMenT Customized experiences include a week at a baseball camp with retired baseball greats, a four-day rock and roll fantasy camp, and a climb up Mount Everest. persons Artists, musicians, CEOs, physicians, high-profile lawyers and financiers, and other professionals often get help from top marketers.12 Many athletes and entertainers have done a masterful job of marketing themselves—NFL quarterback Peyton Manning, talk show veteran Oprah Winfrey, and rock and roll legends The Rolling Stones. Management consultant Tom Peters, himself a master at self-branding, has advised each person to become a "brand." places Cities, states, regions, and whole nations compete to attract tourists, residents, factories, and company headquarters.13 Place marketers include economic development specialists, real estate agents, commercial banks, local business associations, and advertising and public relations agencies. The Las Vegas Convention & Visitors Authority has met with much success with its provocative ad campaign "What Happens Here, Stays Here," portraying Las Vegas as "an adult playground." properties Properties are intangible rights of ownership to either real property (real estate) or financial property (stocks and bonds). They are bought and sold, and these exchanges require marketing. Real estate agents work for property owners or sellers, or they buy and sell residential or commercial real estate. Investment companies and banks market securities to both institutional and individual investors. orGanizations Museums, performing arts organizations, corporations, and nonprofits all use marketing to boost their public images and compete for audiences and funds. Some universities have created chief marketing officer (CMO) positions to better manage their school identity and image, via everything from admission brochures and Twitter feeds to brand strategy.14 So ur ce : © M cC la tc hy -T rib un e In fo rm at io n Se rv ic es /Al am y The pageantry of the Olympics, shown here in Sochi, Russia, adds to its marketability. Oprah Winfrey has built a personal brand worth billions which she has used across many lines of business. So ur ce : C hr is P iz ze llo /I nv is io n/ A P defining MARkeTing foR The new ReAliTies | chapter 1 7 Information Information is essentially what books, schools, and universities produce, market, and distribute at a price to parents, students, and communities. Firms make business decisions using information supplied by organizations like Thomson Reuters: "We combine industry expertise with innovative technology to deliver critical information to leading decision makers in the financial, legal, tax and accounting, healthcare, science and media markets, powered by the world's most trusted news organization."15 ideas Every market offering includes a basic idea. Charles Revson of Revlon once observed: "In the factory we make cosmetics; in the drugstore we sell hope." Products and services are platforms for delivering some idea or benefit. Social marketers promote such ideas as "Friends Don't Let Friends Drive Drunk" and "A Mind Is a Terrible Thing to Waste." Who Markets? Marketers and prospects A marketer is someone who seeks a response—attention, a purchase, a vote, a donation—from another party, called the prospect. If two parties are seeking to sell something to each other, we call them both marketers. Marketers are skilled at stimulating demand for their products, but that's a limited view of what they do. They also seek to influence the level, timing, and composition of demand to meet the organization's objectives. Eight demand states are possible: 1. Negative demand—Consumers dislike the product and may even pay to avoid it. 2. Nonexistent demand—Consumers may be unaware of or uninterested in the product. 3. Latent demand—Consumers may share a strong need that cannot be satisfied by an existing product. 4. Declining demand—Consumers begin to buy the product less frequently or not at all. 5. Irregular demand—Consumer purchases vary on a seasonal, monthly, weekly, daily, or even hourly basis. 6. Full demand—Consumers are adequately buying all products put into the marketplace. 7. Overfull demand—More consumers would like to buy the product than can be satisfied. 8. Unwholesome demand—Consumers may be attracted to products that have undesirable social consequences. In each case, marketers must identify the underlying cause(s) of the demand state and determine a plan of action to shift demand to a more desired state. Markets Traditionally, a "market" was a physical place where buyers and sellers gathered to buy and sell goods. Economists describe a market as a collection of buyers and sellers who transact over a particular product or product class (such as the housing market or the grain market). Five basic markets and their connecting flows are shown in Figure 1.1. Manufacturers go to resource markets (raw material markets, labor markets, money markets), buy resources and turn them into goods and services, and sell finished products to intermediaries, who sell them to consumers. Consumers sell their labor and receive money with which they pay for goods and services. The government collects tax revenues to buy goods from resource, Taxes, goods Services, money Services, money Goods and services Money Goods and services Services, money Taxes, goods Services Taxes, goods Resources Money Resources Money Resource markets Consumer markets Manufacturer markets Intermediary markets Government markets | Fig. 1.1 | Structure of Flows in a Modern Exchange Economy 8 PART 1 | UndeRsTAnding MARkeTing MAnAgeMenT manufacturer, and intermediary markets and uses these goods and services to provide public services. Each nation's economy, and the global economy, consists of interacting sets of markets linked through exchange processes. Marketers view sellers as the industry and use the term market to describe customer groups. They talk about need markets (the diet-seeking market), product markets (the shoe market), demographic markets (the "millennium" youth market), geographic markets (the Chinese market), or voter markets, labor markets, and donor markets. Figure 1.2 shows how sellers and buyers are connected by four flows. Sellers send goods and services and com- munications such as ads and direct mail to the market; in return they receive money and information such as cus- tomer attitudes and sales data. The inner loop shows an exchange of money for goods and services; the outer loop shows an exchange of information. key customer markets Consider the following key customer markets: consumer, business, global, and nonprofit. Consumer Markets Companies selling mass consumer goods and services such as juices, cosmetics, athletic shoes, and air travel establish a strong brand image by developing a superior product or service, ensuring its availability, and backing it with engaging communications and reliable performance. Business Markets Companies selling business goods and services often face well-informed professional buyers skilled at evaluating competitive offerings. Advertising and Web sites can play a role, but the sales force, the price, and the seller's reputation may play a greater one. Global Markets Companies in the global marketplace navigate cultural, language, legal, and political differences while deciding which countries to enter, how to enter each (as exporter, licenser, joint venture partner, contract manufacturer, or solo manufacturer), how to adapt product and service features to each country, how to set prices, and how to communicate in different cultures. Nonprofit and Governmental Markets Companies selling to nonprofit organizations with limited purchasing power such as churches, universities, charitable organizations, and government agencies need to price carefully. Lower selling prices affect the features and quality the seller can build into its offering. Much government purchasing requires bids; buyers often focus on practical solutions and favor the lowest bid, other things equal.16 Nonprofit Government Industry (a collection of sellers) Market (a collection of buyers) Goods/services Communication Money Information | Fig. 1.2 | A Simple Marketing System So ur ce : © T ra v el P ic tu re s/ A la m y Governments are a key customer market for many companies. defining MARkeTing foR The new ReAliTies | chapter 1 9 Core Marketing Concepts To understand the marketing function, we need to understand the following core set of concepts (see Table 1.1). neeDs, Wants, anD DeManDs Needs are the basic human requirements such as for air, food, water, clothing, and shelter. Humans also have strong needs for recreation, education, and entertainment. These needs become wants when they are directed to specific objects that might satisfy the need. A U.S. consumer needs food but may want a Chicago-style "deep-dish" pizza and a craft beer. A person in Afghanistan needs food but may want rice, lamb, and carrots. Our wants are shaped by our society. Demands are wants for specific products backed by an ability to pay. Many people want a Mercedes; only a few can buy one. Companies must measure not only how many people want their product, but also how many are will- ing and able to buy it. These distinctions shed light on the criticism that "marketers get people to buy things they don't want." Marketers do not create needs: Needs pre-exist marketers. Marketers might promote the idea that a Mercedes satis- fies a person's need for social status. They do not, however, create the need for social status. Some customers have needs of which they are not fully conscious or cannot articulate. What does the customer mean when asking for a "powerful" lawn mower or a "peaceful" hotel? The marketer must probe further. We can distin- guish five types of needs: 1. Stated needs (The customer wants an inexpensive car.) 2. Real needs (The customer wants a car whose operating cost, not initial price, is low.) 3. Unstated needs (The customer expects good service from the dealer.) 4. Delight needs (The customer would like the dealer to include an onboard GPS system.) 5. Secret needs (The customer wants friends to see him or her as a savvy consumer.) Responding only to the stated need may shortchange the customer.17 Consumers did not know much about tablet computers when they were first introduced, but Apple worked hard to shape consumer perceptions of them. To gain an edge, companies must help customers learn what they want. tarGet Markets, PosItIonInG, anD seGMentatIon Not everyone likes the same cereal, restaurant, university, or movie. Marketers therefore identify distinct segments of buyers by identifying demographic, psychographic, and behavioral differences between them. They then decide which segment(s) present the greatest opportunity. For each of these target markets, the firm develops a market table 1.1 Core Marketing Concepts Needs, Wants, and Demands Target Markets, Positioning, and Segmentation Offerings and Brands Marketing Channels Paid, Owned, and Earned Media Impressions and Engagement Value and Satisfaction Supply Chain Competition Marketing Environment 10 PART 1 | UndeRsTAnding MARkeTing MAnAgeMenT offering that it positions in target buyers' minds as delivering some key benefit(s). Volvo develops its cars for the buyer to whom safety is a major concern, positioning them as the safest a customer can buy. Porsche targets buyers who seek pleasure and excitement in driving and want to make a statement about their wheels. offerInGs anD BranDs Companies address customer needs by putting forth a value proposition, a set of benefits that satisfy those needs. The intangible value proposition is made physical by an offering, which can be a combination of products, services, information, and experiences. A brand is an offering from a known source. A brand name such as Apple carries many different kinds of associations in people's minds that make up its image: creative, innovative, easy-to-use, fun, cool, iPod, iPhone, and iPad to name just a few. All companies strive to build a brand image with as many strong, favorable, and unique brand associations as possible. MarketInG channels To reach a target market, the marketer uses three kinds of marketing channels. Communication channels deliver and receive messages from target buyers and include newspapers, magazines, radio, television, mail, telephone, smart phone, billboards, posters, fliers, CDs, audiotapes, and the Internet. Beyond these, firms communicate through the look of their retail stores and Web sites and other media, adding dialogue channels such as e-mail, blogs, text messages, and URLs to familiar monologue channels such as ads. Distribution channels help display, sell, or deliver the physical product or service(s) to the buyer or user. These channels may be direct via the Internet, mail, or mobile phone or telephone or indirect with distributors, wholesal- ers, retailers, and agents as intermediaries. To carry out transactions with potential buyers, the marketer also uses service channels that include warehouses, transportation companies, banks, and insurance companies. Marketers clearly face a design challenge in choosing the best mix of communication, distribution, and service channels for their offerings. PaID, oWneD, and earneD MeDIa The rise of digital media gives marketers a host of new ways to interact with consumers and customers. We can group communication options into three categories.18 Paid media includes TV, magazine and display ads, paid search, and sponsorships, all of which allow marketers to show their ad or brand for a fee. Owned media are communication channels marketers actually own, like a company or brand brochure, Web site, blog, Facebook page, or Twitter account. Earned media are streams in which consumers, the press, or other outsid- ers voluntarily communicate something about the brand via word of mouth, buzz, or viral marketing meth- ods. The emergence of earned media has allowed some companies, such as Chipotle, to reduce paid media expenditures.19 chiPOtLe One of the fastest-growing restaurant chains over the last decade, Chipotle is commit- ted to fresh food. The company supports family farms and sources sustainable ingredients from local growers who behave responsibly toward animals and the environment. It has over 1,600 stores and over 1.7 million social media fans–yet spends next to nothing on traditional paid media. Instead Chipotle engages customers through Facebook, Twitter, and other social media via its grassroots "Food With Integrity" digital strategy which puts the focus on what it sells and where it comes from. As CMO Mark Crumpacker notes, "Typically, fast-food marketing is a game of trying to obscure the truth. The more people know about most fast-food companies, the less likely they'd want to be a customer." YouTube videos with country legend Willie Nelson and indie rocker Karen O from the Yeah Yeah Yeahs musically made Chipotle's case against processed foods and the industrialization of family farms. IMPressIons anD enGaGeMent Marketers now think of three "screens" or means to reach consumers: TV, Internet, and mobile. Surprisingly, the rise of digital options did not initially depress the amount of TV viewing, in part because, as one Nielsen study found, three of five consumers use two screens at once.20 defining MARkeTing foR The new ReAliTies | chapter 1 11 Impressions, which occur when consumers view a communication, are a useful metric for tracking the scope or breadth of a communication's reach that can also be compared across all communication types. The downside is that impressions don't provide any insight into the results of viewing the communication. Engagement is the extent of a customer's attention and active involvement with a communication. It reflects a much more active response than a mere impression and is more likely to create value for the firm. Some online measures of engagement are Facebook "likes," Twitter tweets, comments on a blog or Web site, and sharing of video or other content. Engagement can extend to personal experiences that augment or transform a firm's products and services. Value anD satIsfactIon The buyer chooses the offerings he or she perceives to deliver the most value, the sum of the tangible and intangible benefits and costs. Value, a central marketing concept, is primarily a combination of quality, service, and price (qsp), called the customer value triad. Value perceptions increase with quality and service but decrease with price. We can think of marketing as the identification, creation, communication, delivery, and monitoring of customer value. Satisfaction reflects a person's judgment of a product's perceived performance in relationship to expectations. If performance falls short of expectations, the customer is disappointed. If it matches expectations, the customer is satis- fied. If it exceeds them, the customer is delighted. suPPlY chaIn The supply chain is a channel stretching from raw materials to components to finished products carried to final buyers. As Figure 1.3 shows, the supply chain for coffee may start with Ethiopian farmers who plant, tend, and pick the coffee beans and sell their harvest. If sold through a Fair Trade cooperative, the coffee is washed, dried, and packaged for shipment by an Alternative Trading Organization (ATO) that pays a minimum of $1.26 a pound. The ATO transports the coffee to the developed world where it can sell it directly or via retail channels. Each company in the chain captures only a certain percentage of the total value generated by the supply chain's value delivery system. When a company acquires competitors or expands upstream or downstream, its aim is to capture a higher percentage of supply chain value. Problems with a supply chain can be damaging or even fatal for a business. When Johnson & Johnson ran into manufacturing problems with its consumer products unit (which makes Tylenol and other prod- ucts), it hired away from Bayer AG a top executive known for her skill at fixing consumer and supply chain problems.21 Chipotle found marketplace success with little paid media, focusing on social media to tell its story of "Food With Integrity." 12 PART 1 | UndeRsTAnding MARkeTing MAnAgeMenT coMPetItIon Competition includes all the actual and potential rival offerings and substitutes a buyer might consider. An automobile manufacturer can buy steel from U.S. Steel in the United States, from a foreign firm in Japan or Korea, or from a mini-mill such as Nucor at a cost savings, or it can buy aluminum parts from Alcoa to reduce the car's weight or engineered plastics from Saudi Basic Industries Corporation (SABIC) instead of steel. Clearly, U.S. Steel is more likely to be hurt by substitute products than by other integrated steel companies and would be defining its competition too narrowly if it didn't recognize this. MarketInG enVIronMent The marketing environment consists of the task environment and the broad environment. The task environ- ment includes the actors engaged in producing, distributing, and promoting the offering. These are the company, suppliers, distributors, dealers, and target customers. In the supplier group are material suppliers and service suppliers, such as marketing research agencies, advertising agencies, banking and insurance companies, transpor- tation companies, and telecommunications companies. Distributors and dealers include agents, brokers, manufac- turer representatives, and others who facilitate finding and selling to customers. The broad environment consists of six components: demographic environment, economic environment, social-cultural environment, natural environment, technological environment, and political-legal environ- ment. Marketers must pay close attention to the trends and developments in these and adjust their marketing strategies as needed. New opportunities are constantly emerging that await the right marketing savvy and ingenuity. Consider Pinterest.22 Pinterest One of the fastest-growing social media sites ever–its surpassed 10 million monthly unique U.S. visitors in January 2012 and doubled that just four months later–Pinterest is a visual bookmarking tool that lets users collect and share images of projects or products on digital scrapbooks or "pinboards." Especially popular with women planning weddings, saving recipes, and designing kitchen upgrades, Pinterest has driven more traffic to websites in a month than Twitter, Google+, LinkedIn, and YouTube combined. Part of its appeal is its unique customizable grid of images. Pinterest's sweet spot is that users are often in a shopping mindset; one study showed almost 70% of online purchasers who found a product via Pinterest went on to buy, compared to 40% for Facebook. Brands from Dell and Mercedes-Benz to Peanut Butter & Co. and Zombie SAK are integrat- ing the site into their social media strategies. Nevertheless, Pinterest is still exploring how to best monetize its business venture. Coffee is sold directly or via retail channels Ethiopian farmers grow and harvest coffee beans Farmers sell the beans to Fair Trade cooperative Coffee is washed, dried, and packaged for shipment Alternative Trading Organization transports beans to developed world | Fig. 1.3 | The Supply Chain for Coffee defining MARkeTing foR The new ReAliTies | chapter 1 13 The New Marketing Realities The marketplace is dramatically different from even 10 years ago, with new marketing behaviors, opportunities, and challenges emerging. In this book we focus on three transformative forces: technology, globalization, and social responsibility. technoloGY The pace of change and the scale of technological achievement can be staggering. The number of mobile phones in India recently exceeded 500 million, Facebook's monthly users passed 1 billion, and more than half of African urban residents were able to access the Internet monthly.23 With the rapid rise of e-commerce, the mobile Internet, and Web penetration in emerging markets, the Boston Consulting Group believes brand marketers must enhance their "digital balance sheets." 24 Massive amounts of information and data about almost everything are now available to consumers and marketers. In fact, technology research specialists Gartner predicts that by 2017, CMOs will spend more time on information technology (IT) than chief information officers (CIOs). Aetna's CMO and CIO have already collaborated suc- cessfully for years, launching new products and services including iTriage, a popular health app for the iPhone. With iTriage, users can research ailments, find nearby physicians, and learn about prescribed medicines.25 Procter & Gamble (P&G) is determined to stay ahead of technology trends.26 P&G P&G uses the latest Web-based tools in all 80 countries where it sells products: ubiquitous high-speed networking, data visualization, and high-speed analysis of multiple information streams. In 40 locations worldwide, a mas- sive business sphere can display real-time market share, profits, and prices by country, region, brand, and product. Tide laundry detergent has a dedicated "news desk" that monitors social media chatter and joins in when relevant. When Tide was used to clean up a nasty fuel spill in a NASCAR race, the brand ran social media ads with real news footage within 72 hours. P&G looks at a wide range of technology applications. One pilot study showed that field salespeople increased revenue 1.5 percent merely by using iPads to show store customers the layouts of different floor displays. Pinterest has tapped into consumer desire to collect and share personally relevant images online. 14 PART 1 | UndeRsTAnding MARkeTing MAnAgeMenT The old credo "information is power" is giving way to the new idea that "sharing information is power."27 Software giant SAP's online community numbers more than 2 million customers, partners, and others. Once a year, 100 are chosen to contribute ideas to product development.28 At the other end of the size spectrum, by running Facebook ads offering a free cut, shampoo, and hot towel treatment to new customers in exchange for name, phone number, e-mail address, and preferred social network, The Gent's Place barbershop in Frisco, TX, has picked up 5,000 clients. Its average marketing cost for each was $10.13, which it quickly recoups from repeat purchases.29 Even traditional marketing activities are profoundly affected by technology. To improve sales force effectiveness, drug maker Roche decided to issues iPads to its entire sales team. Though the company had a sophisticated cus- tomer relationship management (CRM) software system before, it still depended on sales reps to accurately input data in a timely fashion, which unfortunately did not always happen. With iPads, however, sales teams can do real-time data entry, improving the quality of the data entered while freeing up time for other tasks.30 GloBalIzatIon The world has become a smaller place. New transportation, shipping, and communication technologies have made it easier for us to know the rest of the world, to travel, to buy and sell anywhere. By 2025, annual consumption in emerging markets will total $30 trillion and contribute more than 70 percent of global GDP growth.31 A staggering 56 percent of global financial services consumption is forecast to come from emerging markets by 2050, up from 18 percent in 2010. Demographic trends favor developing markets such as India, Pakistan, and Egypt, with populations whose median age is below 25. In terms of growth of the middle class, defined as earning more than $3,000 per year, the Philippines, China, and Peru are the three fastest-growing countries.32 Globalization has made countries increasingly multicultural. U.S. minorities have much economic clout, and their buying power is growing faster than that of the general population. According to the University of Georgia's Terry College of Business minority buying report, the combined buying power of U.S. racial minorities (African Americans, Asians, and Native Americans) is projected to rise from $1.6 trillion in 2010 to $2.1 trillion in 2015, accounting for 15 percent of the nation's total. The buying power of U.S. Hispanics will rise from $1 trillion in 2010 to $1.5 trillion in 2015, nearly 11 percent of the nation's total. One survey found that 87 percent of companies planned to increase or maintain multicultural media budgets.33 Globalization changes innovation and product development as companies take ideas and lessons from one country and apply them to another. After years of little success with its premium ultrasound scanners in the Chinese market, GE successfully developed a portable, ultra-low-cost version that addressed the country's unique market needs. Later, it began to successfully sell the product throughout the developed world for use in ambu- lances and operating rooms where existing models were too big.34 socIal resPonsIBIlItY Poverty, pollution, water shortages, climate change, wars, and wealth concentration demand our attention. The private sector is taking some responsibility for improving living conditions, and firms all over the world have elevated the role of corporate social responsibility. So ur ce : G et ty Im ag es fo r N A SC A R When Tide was used to clean a fuel spill at a NASCAR, P&G quickly spread the word on social media. defining MARkeTing foR The new ReAliTies | chapter 1 15 Because marketing's effects extend to society as a whole, marketers must consider the ethical, environmen- tal, legal, and social context of their activities.35 "Marketing Insight: Getting to Marketing 3.0" describes how companies need to change to do that. The organization's task is thus to determine the needs, wants, and interests of target markets and satisfy them more effectively and efficiently than competitors while preserving or enhancing consumers' and society's long- term well-being. So ur ce : P ho to gr ap he r: M or ad B ou ch ak ou r. C ou rt es y Q G en er al E le ct ric C om pa ny . GE's Vscan, initially introduced into developing markets, such as GE's portable ultrasound scanner, are finding success in developed markets too. Getting to Marketing 3.0 Philip Kotler, Hermawan Kartajaya, and Iwan Setiawan believe today's customers want marketers to treat them as whole human beings and acknowledge that their needs extend beyond pure con- sumerism. Successful marketing is thus distinguished by its human or emotional element. A third wave of thinking, values-driven and heralded as "Marketing 3.0," has moved us beyond the product- centric and consumer-centric models of the past, these authors say. Its three central trends are increased consumer participation and collaborative marketing, globalization, and and the rise of a creative society. • We live with sustained technological development—low-cost Internet, cheap computers and mobile phones, open source services and systems. Expressive and collaborative social media, such as Facebook and Wikipedia, have changed the way market- ers operate and interact with consumers. • Culturally relevant brands can have far-reaching effects. A cultural brand might position itself as a national or local alternative to a global brand with poor environmental standards, for instance. • Creative people are increasingly the backbone of developed economies. Marketing can now help companies tap into creativity and spirituality by instilling marketing values in corporate culture, vision, and mission. These authors believe the future of marketing will be horizontal: consumer-to-consumer. They feel the recent economic downturn has not fostered trust in the marketplace and that customers now increas- ingly turn to one another for credible advice and information when selecting products. Sources: Philip Kotler, Hermawan Kartajaya, and Iwan Setiawan, Marketing 3.0: From Products to Customers to the Human Spirit (Hoboken, NJ: Wiley, 2010); Michael Krauss, "Evolution of an Academic: Kotler on Marketing 3.0," Marketing News, January 30, 2011; Vivek Kaul, "Beyond Advertising: Philip Kotler Remains One of the Most Influential Marketing Thinkers," The Economic Times, February 29, 2012. For more stimulating related ideas, see also Jim Stengel, Grow: How Ideals Power Growth and Profit at the World's Greatest Companies (New York: Crown, 2011). marketing insight 16 PART 1 | UndeRsTAnding MARkeTing MAnAgeMenT As goods become more commoditized and consumers grow more socially conscious, some companies—including The Body Shop, Timberland, and Patagonia—incorporate social responsibility as a way to differentiate themselves from competitors, build consumer preference, and achieve notable sales and profit gains.36 A Dramatically Changed Marketplace These three forces—technology, globalization, and social responsibility—have dramatically changed the mar- ketplace, bringing consumers and companies new capabilities. The marketplace is also being transformed by changes in channel structure and heightened competition. neW consuMer caPaBIlItIes Social media has become an explosive worldwide phenomenon. In Germany, the percentage of consumers over 65 accessing the Internet increased from 24 percent to 33 percent from 2011 to 2012; most belonged to a social media service. The number of Germans browsing the Web wirelessly increased to 29 million in 2012 and was expected to hit 60 million in 2016. More than 10 percent of Germans were using tablets to access the Internet in 2012. Almost two- thirds of German companies surveyed in 2012 reported positive payback to their social media activities (Facebook, Twitter, social media newsrooms, customer feedback communities).37 Empowerment is not just about technology, though. Consumers are willing to move to another brand if they think they are not being treated right or do not like what they are seeing, as Progressive Insurance found out.38 PrOGressiVe insurAnce Kate Fisher, a Progressive policyholder, was killed by an underinsured driver who ran a red light. Her family felt they had to sue the driver for negligence to prompt Progressive to make up what the driver could not pay. Matt Fisher, Kate's brother, was furious when Progressive actively participated in the negligent driver's legal defense. His Tumblr post, "My Sister Paid Progressive Insurance to Defend Her Killer in Court," was picked up by media outlets and sparked public outrage on Progressive's Facebook and Twitter pages. More than 1,000 customers reported dropping Progressive, and many more said they would not do business with the company. Although Progressive felt it had defensible business reasons for its actions, critics were enraged by its awkward responses, like: "We fully investigated this claim and relevant background and feel we properly handled the claim within our contractual obligations." After a few tumultuous days, Progressive reportedly settled with the Fishers for tens of thousands of dollars more than the $76,000 they had sought. Expanded information, communication, and mobility enable customers to make better choices and share their preferences and opinions with others around the world. Table 1.2 summarizes some of the new consumer capabili- ties we outline next. • Consumers can use the Internet as a powerful information and purchasing aid. From the home, office, or mobile phone, they can compare product prices and features, consult user reviews, and order goods online table 1.2 New Consumer Capabilities Can use the Internet as a powerful information and purchasing aid Can search, communicate, and purchase on the move Can tap into social media to share opinions and express loyalty Can actively interact with companies Can reject marketing they find inappropriate defining MARkeTing foR The new ReAliTies | chapter 1 17 from anywhere in the world 24 hours a day, seven days a week, bypassing limited local offerings and real- izing significant price savings. They can also engage in "showrooming": comparing products in stores but buying online.39 Because consumers and other constituents can in fact track down virtually any kind of company information, firms now realize that transparency in corporate words and actions is of paramount importance. • Consumers can search, communicate, and purchase on the move. Consumers increasingly integrate smart phones and tablets into their daily lives. One study found the majority of European smart phone own- ers use their devices to research products and make purchases.40 There is one cell phone for every two people on the planet—and 10 times more cell phones are produced globally each day than babies are born. Telecommunications is one of the world's trillion-dollar industries, along with tourism, military, food, and automobiles.41 • Consumers can tap into social media to share opinions and express loyalty. Personal connections and user- generated content thrive on social media such as Facebook, Flickr, Wikipedia, and YouTube. Sites like Dogster for dog lovers, TripAdvisor for travelers, and Moterus for bikers bring together consumers with a common interest. At CarSpace.com, auto enthusiasts talk about chrome rims, the latest BMW model, and where to find a great local mechanic. • Consumers can actively interact with companies. Consumers see their favorite companies as work- shops from which to draw out the offerings they want. By opting in or out of lists, they can receive marketing and sales-related communications, discounts, coupons, and other special deals. With smart phones, they can scan barcodes and QR (Quick Response) codes to access a brand's Web site and other information.42 • Consumers can reject marketing they find inappropriate. Some customers today may feel fewer product differences and feel less brand loyal. Others may become more price- and quality-sensitive in their search for value. Almost two-thirds of consumers in one survey reported that they disliked advertising.43 For these and other reasons, consumers can be less tolerant about undesired marketing. They can choose to screen out online messages, skip commercials with their DVRs, and avoid marketing appeals through the mail or over the phone. neW coMPanY caPaBIlItIes At the same time, globalization, social responsibility, and technology have also generated a new set of capabilities to help companies cope and respond (see Table 1.3). • Companies can use the Internet as a powerful information and sales channel, including for individually dif- ferentiated goods. A Web site can list products and services, history, business philosophy, job opportunities, and other information of interest to consumers worldwide. Solo Cup marketers note that linking their store- fronts to their Web site and Facebook page makes it easier for consumers to buy Solo paper cups and plates while engaging with the brand online.44 Thanks to advances in factory customization, computer technology, and database marketing software, companies can allow customers to buy M&M candies with their names on table 1.3 New Company Capabilities Can use the Internet as a powerful information and sales channel, including for individually differentiated goods Can collect fuller and richer information about markets, customers, prospects, and competitors Can reach customers quickly and efficiently via social media and mobile marketing, sending targeted ads, coupons, and information Can improve purchasing, recruiting, training, and internal and external communications Can improve cost efficiency 18 PART 1 | UndeRsTAnding MARkeTing MAnAgeMenT them, Wheaties boxes or Jones soda cans with their picture on the front, and Heinz ketchup bottles with cus- tomized messages.45 • Companies can collect fuller and richer information about markets, customers, prospects, and competitors. Marketers can conduct fresh marketing research by using the Internet to arrange focus groups, send out questionnaires, and gather primary data in several other ways. They can assemble information about individual customers' purchases, preferences, demographics, and profitability. The drugstore chain CVS uses loyalty-card data to better understand what consumers purchase, the frequency of store visits, and other buying preferences. Its ExtraCare program supports 69 million shoppers in more than 7,300 stores. Eighty-two percent of CVS's front store (non-pharmacy) sales go through the ExtraCare program.46 • Companies can reach consumers quickly and efficiently via social media and mobile marketing, sending tar- geted ads, coupons, and information. GPS technology can pinpoint consumers' exact location, letting marketers send them messages at the mall with wish-list reminders and coupons or offers good only that day. Location- based advertising is attractive because it reaches consumers closer to the point of sale. Social media and buzz are also powerful. Over a two-year period, Dell took in more than $2 million in U.S. revenue from coupons provided through Twitter and another $1 million from people who started at Twitter and bought a new computer on Dell's Web site. By mid-2012, the @DellOutlet Twitter account had more than 1.6 million followers.47 Word-of-mouth marketing agency BzzAgent recruited 600,000 consumers who voluntarily join promotional programs for products and services they deem worth talking about. • Companies can improve purchasing, recruiting, training, and internal and external communications. Firms can recruit new employees online, and many have Internet training products for their employees, dealers, and agents. Blogging has waned as companies embrace social media. "We want to be where our customers are," said Bank of America after dropping its blog in favor of Facebook and Twitter.48 Farmers Insurance uses specialized software to help its 15,000 agents nationwide maintain their own Facebook pages.49 Via intranets and databases, employees can query one another, seek advice, and exchange informa- tion. Seeking a single online employee portal that transcended business units, General Motors launched a platform called mySocrates in 2006 to carry announcements, news, links, and historical information. GM credits the portal with $17.4 million in cost savings to date.50 Popular hybrid Twitter/Facebook-type prod- ucts designed especially for business employees have been introduced by Salesforce.com, IBM, and several start-ups.51 • Companies can improve their cost efficiency. Corporate buyers can achieve substantial savings by using the Internet to compare sellers' prices and purchase materials at auction or by posting their own terms in reverse auctions. Companies can improve logistics and operations to reap substantial cost savings while improving accuracy and service quality. Small businesses can especially unleash the power of the Internet. Physicians operating a small practice can use Facebook-like services such as Doximity to connect with referring physicians and specialists.52 Many different products, such as M&Ms, can now be customized by consumers. defining MARkeTing foR The new ReAliTies | chapter 1 19 chanGInG chAnnels One of the reasons consumers have more choices is that channels of distribution have changed as a result of retail transformation and disintermediation. • Retail transformation. Store-based retailers face competition from catalog houses; direct-mail firms; newspaper, magazine, and TV direct-to-customer ads; home shopping TV; and e-commerce. In response, entrepreneurial retailers are building entertainment into their stores with coffee bars, demonstrations, and performances, marketing an "experience" rather than a product assortment. • Disintermediation. Early dot-coms such as Amazon.com, E*TRADE, and others successfully created dis- intermediation in the delivery of products and services by intervening in the traditional flow of goods. In response, traditional companies engaged in reintermediation and became "brick-and-click" retailers, adding online services to their offerings. Some with plentiful resources and established brand names became stronger contenders than pure-click firms. heIGhteneD coMPetItIon While globalization has created intense competition among domestic and foreign brands, the rise of private labels and mega-brands and a trend toward deregulation and privatization have also increased competition. • Private labels. Brand manufacturers are further buffeted by powerful retailers that market their own store brands, increasingly indistinguishable from any other type of brand. • Mega-brands. Many strong brands have become mega-brands and extended into related product categories, including new opportunities at the intersection of two or more industries. Computing, telecommunications, and consumer electronics are converging, with Apple and Samsung releasing a stream of state-of-the-art devices from MP3 players to LCD TVs to fully loaded smart phones. • Deregulation. Many countries have deregulated industries to create greater competition and growth oppor- tunities. In the United States, laws restricting financial services, telecommunications, and electric utilities have all been loosened in the spirit of greater competition. • Privatization. Many countries have converted public companies to private ownership and management to increase their efficiency. The telecommuni- cations industry has seen much privatization in countries such as Australia, France, Germany, Italy, Turkey, and Japan.53 Marketing in Practice Given the new marketing realities, organizations are challenging their marketers to find the best balance of old and new and to provide demonstrable evidence of success. "Marketing Memo: Reinventing Marketing at Coca-Cola" describes some of the many different ways that that top marketing organization has changed. MarketInG Balance Companies must always move forward, innovating products and services, staying in touch with customer needs, and seeking new advantages rather than relying on past strengths. India's Hindustan Unilever asks all staff members— not just marketers—to obtain a "consumer license" to work on its brands, which requires spending 50 hours of face time with shoppers. As one senior executive noted, "Our consumers are moving faster than marketers do; whether in terms of rural or urban changes or the way they consume media and entertainment."54 Moving forward especially means incorporating the Internet and digital efforts into marketing plans. Marketers must balance increased spending on search advertising, social media, e-mails, and text messages with appropriate spend- ing on traditional marketing communications. But they must do so in tough economic times, when accountability has become a top priority and returns on investment are expected from every marketing activity. The ideal is retaining win- ning practices from the past while adding fresh approaches that reflect the new marketing realities.55 So ur ce : A ss oc ia te d Pr es s Coca-Cola reinforces its message of happiness with special promotional "Hug Me" vending machines which dispense free product. 20 PART 1 | UndeRsTAnding MARkeTing MAnAgeMenT MarketInG accountaBIlItY Marketers are increasingly asked to justify their investments in financial and profitability terms, as well as in terms of building the brand and growing the customer base. Organizations recognize that much of their market value comes from intangible assets, particularly brands, customer base, employees, distributor and supplier relations, and intellectual capital. They are thus applying more metrics—brand equity, customer lifetime value, return on marketing investment (ROMI)—to understand and measure their marketing and business performance and a broader variety of financial measures to assess the direct and indirect value their marketing efforts create. MarketInG In the orGanIzatIon As the late David Packard of Hewlett-Packard observed, "Marketing is far too important to leave to the marketing department." Increasingly, marketing is not done only by the marketing department; every employee has an impact on the customer. Marketers now must properly manage all possible touch points: store layouts, package designs, product functions, employee training, and shipping and logistics. To create a strong marketing organization, mar- keters must think like executives in other departments, and executives in other departments must think more like marketers. Interdepartmental teamwork that includes marketers is needed to manage key processes like production innovation, new-business development, customer acquisition and retention, and order fulfillment. Company Orientation toward the Marketplace Given these new marketing realities, what philosophy should guide a company's marketing efforts? Let's first re- view the evolution of marketing philosophies. the ProDuctIon concePt The production concept is one of the oldest concepts in business. It holds that consumers prefer products that are widely available and inexpensive. Managers of production-oriented businesses concentrate on achieving high pro- duction efficiency, low costs, and mass distribution. This orientation has made sense in developing countries such Coca-Cola is fundamentally changing the way it does marketing, primarily by adding a strong digital component to its traditional marketing tools. The new model is based on moving consumers from impressions to expressions to conversations to transactions. Coca-Cola defines consumer expressions as any level of engagement with brand content: a comment, "like," or share on Facebook, a Tweet, or an uploaded photo or video. Coca-Cola strives to put strongly sharable pieces of communications online that will generate impressions but also lead to expres- sions from consumers who join or extend the communication storyline and ultimately buy the product. These communications focus on the core themes of "happiness" and "optimism" that define the brand's positioning. One successful application is the video of the "Hug Me" vending machine in Singapore that dispensed cans of Coke when people put their arms around it and hugged it. Within in a week, the video generated 112 million impressions. Coca-Cola actively experiments, allocating 70 percent of its budget to activities it knows will work, 20 percent to improving those activities, and 10 percent to experimentation. The company accepts that experiments can fail but believes in taking chances to learn and develop better solutions. Even in its traditional advertising and promotion, it looks for innovation. For instance, Coca-Cola places much importance on cultural leadership and causes that benefit others. The mission of its Artic Home project is to protect the habitat of polar bears—who have starred in animated form in its holiday ads for years. Committing $3 million to the World Wildlife Fund, Coca-Cola drew attention to the project by turning its traditional red cans white. Sources: Joe Tripodi, "Coca-Cola Marketing Shifts from Impressions to Expressions," Harvard Business Review, HBR Blog Network, April 27, 2011; Tim Nudd, "Coca-Cola Joins the Revolution in World Where the Mob Rules," Adweek, June 19, 2012; Surajeet Das Gupta and Vivea Susan Pinto, "Q&A: Joseph Tripodi," Business Standard, November 3, 2011; "Coca-Cola Sets Facebook Record," www.warc.com, September 6, 2012. Reinventing Marketing at Coca-Colamarketing memo defining MARkeTing foR The new ReAliTies | chapter 1 21 as China, where the largest PC manufacturer, Legend (principal owner of Lenovo Group), and domestic appli- ances giant Haier have taken advantage of the country's huge and inexpensive labor pool to dominate the market. Marketers also use the production concept when they want to expand the market. the ProDuct concePt The product concept proposes that consumers favor products offering the most quality, performance, or innovative features. However, managers are sometimes caught in a love affair with their products. They might commit the "better- mousetrap" fallacy, believing a better product will by itself lead people to beat a path to their door. As many start-ups have learned the hard way, a new or improved product will not necessarily be successful unless it's priced, distributed, advertised, and sold properly. the sellInG concePt The selling concept holds that consumers and businesses, if left alone, won't buy enough of the organization's products. It is practiced most aggressively with unsought goods—goods buyers don't normally think of buying such as insurance and cemetery plots—and when firms with overcapacity aim to sell what they make, rather than make what the market wants. Marketing based on hard selling is risky. It assumes customers coaxed into buying a product not only won't return or bad-mouth it or complain to consumer organizations but might even buy it again. the MarketInG concePt The marketing concept emerged in the mid-1950s as a customer-centered, sense-and-respond philosophy. The job is to find not the right customers for your products, but the right products for your customers. Dell doesn't pre- pare a PC or laptop for its target market. Rather, it provides product platforms on which each person customizes the features he or she desires in the machine. The marketing concept holds that the key to achieving organizational goals is being more effective than com- petitors in creating, delivering, and communicating superior customer value to your target markets. Harvard's Theodore Levitt drew a perceptive contrast between the selling and marketing concepts: 56 Selling focuses on the needs of the seller; marketing on the needs of the buyer. Selling is preoccupied with the seller's need to convert his product into cash; marketing with the idea of satisfying the needs of the customer by means of the product and the whole cluster of things associated with creating, delivering, and finally consuming it. the holIstIc MarketInG concePt Without question, the trends and forces that have defined the new marketing realities in the first years of the 21st century are leading business firms to embrace a new set of beliefs and practices. The holistic marketing concept is based on the development, design, and implementation of marketing programs, processes, and activities that recognize their breadth and interdependencies. Holistic marketing acknowledges that everything matters in mar- keting—and that a broad, integrated perspective is often necessary. Holistic marketing thus recognizes and reconciles the scope and complexities of marketing activities. Figure 1.4 provides a schematic overview of four broad components characterizing holistic marketing: relationship market- ing, integrated marketing, internal marketing, and performance marketing. We'll examine these major themes throughout this book. relationship marketinG Increasingly, a key goal of marketing is to develop deep, enduring relationships with people and organizations that directly or indirectly affect the success of the firm's marketing activities. Relationship marketing aims to build mutually satisfying long-term relationships with key constituents in order to earn and retain their business. Four key constituents for relationship marketing are customers, employees, marketing partners (channels, sup- pliers, distributors, dealers, agencies), and members of the financial community (shareholders, investors, analysts). Marketers must create prosperity among all these constituents and balance the returns to all key stakeholders. To develop strong relationships with them requires understanding their capabilities and resources, needs, goals, and desires. 22 PART 1 | UndeRsTAnding MARkeTing MAnAgeMenT The ultimate outcome of relationship marketing is a unique company asset called a marketing network, con- sisting of the company and its supporting stakeholders—customers, employees, suppliers, distributors, retailers, and others—with whom it has built mutually profitable business relationships. The operating principle is simple: build an effective network of relationships with key stakeholders, and profits will follow. Thus more companies are choosing to own brands rather than physical assets, and they are subcontracting activities to firms that can do them better and more cheaply while retaining core activities at home. Companies are also shaping separate offers, services, and messages to individual customers, based on infor- mation about their past transactions, demographics, psychographics, and media and distribution preferences. By focusing on their most profitable customers, products, and channels, these firms hope to achieve profitable growth, capturing a larger share of each customer's expenditures by building high customer loyalty. They estimate individual customer lifetime value and design their market offerings and prices to make a profit over the cus- tomer's lifetime. Marketing must skillfully conduct not only customer relationship management (CRM), but partner relation- ship management (PRM) as well. Companies are deepening their partnering arrangements with key suppliers and distributors, seeing them as partners in delivering value to final customers so everybody benefits. IBM is a business-to-business powerhouse that has learned the value of strong customer bonds.57 iBM Having celebrated its 100th corporate anniversary in 2011, IBM is a remarkable survivor that has main- tained market leadership for decades in the challenging technology industry. The company has managed to success- fully evolve its business and seamlessly update the focus of its products and services numerous times in its history— from mainframes to PCs to its current emphasis on cloud computing, "big data," and IT services. Part of the reason is that IBM's well-trained sales force and service organization offer real value to customers by staying close to them and fully understanding their requirements. IBM often even cocreates products with customers; with the state of New York it developed a method for detecting tax evasion that reportedly saved taxpayers $1.6 billion over a seven-year period. As famed Harvard Business School professor Rosabeth Moss Kanter has noted, "IBM is not a technology company but a company solving problems using technology." inteGrated marketinG Integrated marketing occurs when the marketer devises marketing activities and assembles marketing programs to create, communicate, and deliver value for consumers such that "the whole is greater than the sum of its parts." Two key themes are that (1) many different marketing activities can create, communicate, and deliver value and (2) marketers should design and implement any one marketing activity with all other activities in mind. When a hospital buys an MRI machine from General Electric's Financial communityCustomers PartnersEmployees Products & services Channels PriceCommunications Senior management Other departments Marketing department SocialEthics Integrated marketing Holistic marketing LegalEnvironment Internal marketing Relationship marketing Performance marketing Brand & customer equity Sales revenue | Fig. 1.4 | Holistic Marketing Dimensions defining MARkeTing foR The new ReAliTies | chapter 1 23 Medical Systems division, for instance, it expects good installation, maintenance, and training services to go with the purchase. The company must develop an integrated channel strategy. It should assess each channel option for its direct effect on product sales and brand equity, as well as its indirect effect through interactions with other channel options. All company communications also must be integrated so communication options reinforce and complement each other. A marketer might selectively employ television, radio, and print advertising, public relations and events, and PR and Web site communications so each contributes on its own and improves the effectiveness of the others. Each must also deliver a consistent brand message at every contact. Consider this award-winning campaign for Iceland.58 iceLAnd Already reeling from some of the biggest losses in the global financial crisis in 2008, Iceland faced more misfortune when dormant volcano Eyjafjallajökull unexpectedly erupted in April 2010. Its enormous plumes of ash created the largest air-travel disruption since World War II, resulting in a wave of negative press and bad feelings throughout Europe and elsewhere. With tourism generating around 20 percent of the country's foreign exchange and bookings plummeting, government and tourism officials decided to launch "Inspired by Iceland." This campaign was based on the insight that 80 percent of visitors to Iceland recommend the destination to friends and family. The coun- try's own citizens were recruited to tell their stories and encourage others to join in via a Web site or Twitter, Facebook, and Vimeo. Celebrities such as Yoko Ono and Eric Clapton shared their experiences, and live concerts generated PR. Real-time Web cams across the country showed that the country was not ash-covered but green. The campaign was wildly successful—22.5 million stories were created by people all over the world—and ensuing bookings were dra- matically above forecasts. internal marketinG Internal marketing, an element of holistic marketing, is the task of hiring, training, and motivating able employees who want to serve customers well. Smart marketers recognize that marketing activities within the company can be as important—or even more important—than those directed outside the company. It makes no sense to promise excellent service before the company's staff is ready to provide it. Marketing succeeds only when all departments work together to achieve customer goals (see Table 1.4): when engineering designs the right products, finance furnishes the right amount of funding, purchasing buys the right materials, production makes the right products in the right time horizon, and accounting measures profitability

Iceland's fully integrated modern tourism campaign helped to halt a slide in visitors to the country. 24 PART 1 | UndeRsTAnding MARkeTing MAnAgeMenT table 1.4 Assessing Which Company Departments Are Customer-Minded R&D • They spend time meeting customers and listening to their problems. • They welcome the involvement of marketing, manufacturing, and other departments to each new project. • They benchmark competitors' products and seek "best of class" solutions. • They solicit customer reactions and suggestions as the project progresses. • They continuously improve and refine the product on the basis of market feedback. Purchasing • They proactively search for the best suppliers. • They build long-term relationships with fewer but more reliable, high-quality suppliers. • They don't compromise quality for price savings. Manufacturing • They invite customers to visit and tour their plants. • They visit customer plants. • They willingly work overtime to meet promised delivery schedules. • They continuously search for ways to produce goods faster and/or at lower cost. • They continuously improve product quality, aiming for zero defects. • They meet customer requirements for "customization" where possible. Marketing • They study customer needs and wants in well-defined market segments. • They allocate marketing effort in relation to the long-run profit potential of the targeted segments. • They develop winning offers for each target segment. • They measure company image and customer satisfaction on a continuous basis. • They continuously gather and evaluate ideas for new products, product improvements, and services. • They urge all company departments and employees to be customer centered. Sales • They have specialized knowledge of the customer's industry. • They strive to give the customer "the best solution." • They make only promises that they can keep. • They feed back customers' needs and ideas to those in charge of product development. • They serve the same customers for a long period of time. Logistics • They set a high standard for service delivery time and meet this standard consistently. • They operate a knowledgeable and friendly customer service department that can answer questions, handle complaints, and resolve prob- lems in a satisfactory and timely manner. Accounting • They prepare periodic "profitability" reports by product, market segment, geographic areas (regions, sales territories), order sizes, channels, and individual customers. • They prepare invoices tailored to customer needs and answer customer queries courteously and quickly. Finance • They understand and support marketing expenditures (e.g., image advertising) that produce long-term customer preference and loyalty. • They tailor the financial package to the customer's financial requirements. • They make quick decisions on customer creditworthiness. Public Relations • They send out favorable news about the company and "damage control" unfavorable news. • They act as an internal customer and public advocate for better company policies and practices. Source: © Philip Kotler, Kotler on Marketing (New York: Free Press, 1999), pp. 21–22. Reprinted with permission of The Free Press, a Division of Simon & Schuster Adult Publishing Group. Copyright © 1999 by Philip Kotler. All rights reserved. defining MARkeTing foR The new ReAliTies | chapter 1 25 in the right ways. Such interdepartmental harmony can only truly coalesce, however, when senior management clearly communicates a vision of how the company's marketing orientation and philosophy serve customers. The following example highlights some of the potential challenge in integrating marketing: The marketing vice president of a major European airline wants to increase the airline's traffic share. His strategy is to build up customer satisfaction by providing better food, cleaner cabins, better-trained cabin crews, and lower fares, yet he has no authority in these matters. The catering department chooses food that keeps food costs down; the maintenance department uses inexpensive cleaning services; the human resources department hires people without regard to whether they are naturally friendly; the finance de- partment sets the fares. Because these departments generally take a cost or production point of view, the vice president of marketing is stymied in his efforts to create an integrated marketing program. Internal marketing requires vertical alignment with senior management and horizontal alignment with other departments so everyone understands, appreciates, and supports the marketing effort. performance marketing Performance marketing requires understanding the financial and nonfinancial returns to business and society from marketing activities and programs. As noted previously, top marketers are increasingly going beyond sales revenue to examine the marketing scorecard and interpret what is happening to market share, customer loss rate, customer satisfaction, product quality, and other measures. They are also considering the legal, ethical, social, and environmental effects of marketing activities and programs. When they founded Ben & Jerry's, Ben Cohen and Jerry Greenfield embraced the performance marketing concept by dividing the traditional financial bottom line into a "double bottom line" that also measured the envi- ronmental impact of their products and processes. That later expanded into a "triple bottom line" to represent the social impacts, negative and positive, of the firm's entire range of business activities. Many firms have failed to live up to their legal and ethical responsibilities, and consumers are demanding more responsible behavior.59 One research study reported that at least one-third of consumers around the world believed that banks, insurance providers, and packaged-food companies should be subject to stricter regulation.60 Updating the Four Ps Many years ago, McCarthy classified various marketing activities into marketing-mix tools of four broad kinds, which he called the four Ps of marketing: product, price, place, and promotion.61 The marketing variables under each P are shown in Figure 1.5. A complementary view of the four Ps can be found in Marketing Insight: Understanding the 4 As of Marketing." Given the breadth, complexity, and richness of marketing, however—as exemplified by holistic marketing— clearly these four Ps are not the whole story anymore. If we update them to reflect the holistic marketing Marketing mix PLACE Channels Coverage Assortments Locations Inventory Transport PROMOTION Sales promotion Advertising Sales force Public relations Direct marketing PRICE List price Discounts Allowances Payment period Credit terms PRODUCT Product variety Quality Design Features Brand name Packaging Sizes Services Warranties Returns | Fig. 1.5 | The Four P Components of the Marketing Mix 26 PART 1 | UndeRsTAnding MARkeTing MAnAgeMenT concept, we arrive at a more representative set that encompasses modern marketing realities: people, processes, programs, and performance, as in Figure 1.6. People reflects, in part, internal marketing and the fact that employees are critical to marketing success. Marketing will only be as good as the people inside the organization. It also reflects the fact that marketers must view consumers as people to understand their lives more broadly, and not just as shoppers who consume products and services. Processes reflects all the creativity, discipline, and structure brought to marketing management. Marketers must avoid ad hoc planning and decision making and ensure that state-of-the-art marketing ideas and concepts play an Marketing Mix Four Ps Product Place Promotion Price Modern Marketing Management Four Ps People Processes Programs Performance | Fig. 1.6 | The Evolution of Marketing Management Accessibility Accessibility, the extent to which customers are able to readily acquire the product, has two dimensions: availability and convenience. Successful companies develop innovative ways to deliver both, as on- line shoe retailer Zappos does with excellent customer service and return policies and its tracking of up-to-the-minute information about warehouse stock, brands, and styles. Awareness Awareness is the extent to which customers are informed regarding the product's characteristics, persuaded to try it, and reminded to repurchase. It has two dimensions: brand awareness and product knowledge. Sheth and Sisodia say awareness is ripest for improve- ment because most companies are either ineffectual or inefficient at developing it. For instance, properly done advertising can be incred- ibly powerful, but word-of-mouth marketing and co-marketing can more effectively reach potential customers. Sheth and Sisodia base the 4 As framework on the four distinctive roles a consumer plays in the marketplace—seeker, buyer, payer, and user. A fifth consumer role—evangelizer—captures the fact that consumers often recommend products to others and are increasingly critical with the advent of the Internet and social media platforms. Note that we can easily relate the 4 As to the traditional 4 Ps. Marketers set the product (which mainly influences acceptability), the price (which mainly influences affordability), the place (which mainly influences accessibility), and promotion (which mainly influences awareness). Sources: Jagdish N. Sheth and Rajendra Sisodia, The 4 A's of Marketing: Creating Value for Customer, Company and Society (New York: Routledge, 2012); "New Rules: Jagdish Sheth Outlines 4A's of Marketing," The Financial Express, April 6, 2004; "Industry Leaders Discuss Marketing for Not for Profit Organizations @ BIMTECH Marketing Summit," www.mbauniverse.com, May 1, 2012. marketing insight Understanding the 4 As of Marketing According to Jagdish Sheth and Rajendra Sisodia, poor management as a consequence of not knowing what drives consumers is behind the majority of marketing failures. The authors make the case that consumer knowledge is a much more reliable route to success. Their customer-centric marketing management framework emphasizes what they believe are the most important consumer values—acceptability, affordability, accessibility, and awareness—which they dub the four As. Acceptability Acceptability is the extent to which a firm's total product offer- ing exceeds customer expectations. The authors assert that Ac- ceptability is the dominant component in the framework and that design, in turn, is at the root of acceptability. Functional aspects of design can be boosted by, for instance, enhancing the core benefit or increasing reliability of the product; psychological acceptability can be improved with changes to brand image, packaging and de- sign, and positioning. Affordability Affordability is the extent to which customers in the target market are able and willing to pay the product's price. It has two dimensions: economic (ability to pay) and psychological (willingness to pay). Acceptability combined with affordability determines the product's value proposition. When Peachtree Software lowered the price of its accounting software from $5000 to $199 and started charging for customer support, sales demand increased enormously. defining MARkeTing foR The new ReAliTies | chapter 1 27 appropriate role in all they do, including creating mutually beneficial long-term relationships and imaginatively generating insights and breakthrough products, services, and marketing activities. Programs reflects all the firm's consumer-directed activities. It encompasses the old four Ps as well as a range of other marketing activities that might not fit as neatly into the old view of marketing. Regardless of whether they are online or offline, traditional or nontraditional, these activities must be integrated such that their whole is greater than the sum of their parts and they accomplish multiple objectives for the firm. We define performance as in holistic marketing, to capture the range of possible outcome measures that have financial and nonfinancial implications (profitability as well as brand and customer equity) and implications beyond the company itself (social responsibility, legal, ethical, and the environment). Finally, these new four Ps actually apply to all disciplines within the company, and by thinking this way, manag- ers more closely align themselves with the rest of the company. Marketing Management Tasks Figure 1.7 summarizes the three major market forces, two key market outcomes, and four fundamental pillars of holistic marketing that help to capture the new marketing realities. With these concepts in place, we can identify a specific set of tasks that make up successful marketing management and marketing leadership. We'll use the fol- lowing situation to illustrate these tasks in the context of the plan of the book. (The "Marketing Memo: Marketers' Frequently Asked Questions" is a good checklist for the questions marketing managers ask, all of which we examine in this book.) Zeus Inc. (name disguised) operates in several industries, including chemicals, cameras, and film. The company is organized into SBUs. Corporate management is considering what to do with its Atlas camera division, which produces a range of professional quality 35mm and consumer-friendly digital cameras. Although Zeus has a sizable share and is producing revenue, the 35mm market is rapidly declining at an accelerating rate. In the much faster-growing digital camera segment, Zeus faces strong competition and has been slow to gain sales. Zeus's corporate management wants Atlas's marketing group to produce a strong turnaround plan for the division. DeVeLoPInG MarketInG strateGIes anD PLans The first task facing Atlas is to identify its potential long-run opportunities, given its market experience and core competencies (see Chapter 2). Atlas can design its cameras with better features. It can make a line of digital video cameras, or it can use its core competency in optics to design a line of binoculars and telescopes. Whichever direction it chooses, it must develop concrete marketing plans that specify the marketing strategy and tactics going forward. Relationship Marketing Integrated Marketing Internal Marketing Performance Marketing Technology Social Responsibility New Consumer Capabilities New Company Capabilities Three Major Market Forces Two Key Market Outcomes Four Fundamental Pillars of Holistic Marketing The New Marketing Realities Globalization | Fig. 1.7 | The New Marketing Realities 28 PART 1 | UndeRsTAnding MARkeTing MAnAgeMenT CaPturInG MarketInG InsIGhts Atlas needs a reliable marketing information system to closely monitor its marketing environment so it can continually assess market potential and forecast demand. Its microenvironment consists of all the players who affect its ability to produce and sell cameras—suppliers, marketing intermediaries, customers, and competitors. Its macroenvironment includes demographic, economic, physical, technological, political-legal, and social-cultural forces that affect sales and profits (see Chapter 3). Atlas also needs a dependable marketing research system. To transform strategy into programs, marketing managers must make basic decisions about their expenditures, activities, and budget allocations. They may use sales-response functions that show how the amount of money spent in each application will affect sales and profits (see Chapter 4). connectInG WIth custoMers Atlas must consider how to best create value for its chosen target markets and develop strong, profitable, long-term relationships with customers (see Chapter 5). To do so, it needs to understand consumer markets (see Chapter 6). Who buys cameras, and why? What features and prices are they looking for, and where do they shop? Atlas also sells 35mm cameras to business markets, including large corporations, professional firms, retailers, and government agencies (see Chapter 7), where purchasing agents or buying committees make the decisions. Atlas needs to gain a full understanding of how organizational buyers buy. It needs a sales force well trained in presenting product ben- efits. Atlas must also take into account changing global opportunities and challenges (see Chapter 8). BuILDInG stronG BranDs Atlas will not want to market to all possible customers. It must divide the market into major market segments, eval- uate each one, and target those it can best serve (see Chapter 9). Suppose Atlas decides to focus on the consumer market and develop a positioning strategy (see Chapter 10). Should it position itself as the "Cadillac" brand, offer- ing superior cameras at a premium price with excellent service and strong advertising? Should it build a simple, low-priced camera aimed at more price-conscious consumers? Or something in between? Atlas must understand the strengths and weaknesses of the Zeus brand as customers see it (see Chapter 11). Is its 35mm film heritage a handicap in the digital camera market? Atlas must consider growth strategies while also paying close attention to competitors (see Chapter 12), antici- pating their moves and knowing how to react quickly and decisively. It may want to initiate some surprise moves, in which case it needs to anticipate how its competitors will respond. 1. How can we spot and choose the right market segment(s)? 2. How can we differentiate our offerings? 3. How should we respond to customers who buy on price? 4. How can we compete against lower-cost, lower-price competitors? 5. How far can we go in customizing our offering for each customer? 6. How can we grow our business? 7. How can we build stronger brands? 8. How can we reduce the cost of customer acquisition? 9. How can we keep our customers loyal longer? 10. How can we tell which customers are more important? 11. How can we measure the payback from different types of marketing communications? 12. How can we improve sales force productivity? 13. How can we establish multiple channels and yet manage channel conflict? 14. How can we get the other company departments to be more customer-oriented? Marketers' Frequently Asked Questionsmarketing memo defining MARkeTing foR The new ReAliTies | chapter 1 29 creatInG Value At the heart of the marketing program is the product—the firm's tangible offering to the market, which includes the product quality, design, features, and packaging (see Chapter 13). To gain a competitive advantage, Atlas may provide leasing, delivery, repair, and training as part of its product offering (see Chapter 14). Based on its product positioning, Atlas must initiate new-product development, testing, and launching as part of its long- term view (see Chapter 15). A critical marketing decision relates to price (see Chapter 16). Atlas must decide on wholesale and retail prices, discounts, allowances, and credit terms. Its price should match well with the offer's perceived value; otherwise, buyers will turn to competitors' products. DelIVerInG Value Atlas must also determine how to properly deliver to the target market the value embodied in its products and services. Channel activities include those the company undertakes to make the product accessible and available to target customers (see Chapter 17). Atlas must identify, recruit, and link various marketing facilitators to supply its products and services efficiently to the target market. It must understand the various types of retailers, wholesal- ers, and physical-distribution firms and how they make their decisions (see Chapter 18). coMMunIcatInG Value Atlas must also adequately communicate to the target market the value embodied by its products and services. It will need an integrated marketing communication program that maximizes the individual and collective con- tribution of all communication activities (see Chapter 19). Atlas needs to set up mass communication programs consisting of advertising, sales promotion, events, and public relations (see Chapter 20). It also has to tap into online, social media, and mobile options to reach consumers wherever and whenever it may be appropriate (see Chapter 21). It also needs to plan more personal communications, in the form of direct and database market- ing, as well as hire, train, and motivate salespeople (see Chapter 22). conDuctInG MarketInG resPonsIBIlIty for lonG-terM success Finally, Atlas must build a marketing organization capable of responsibly implementing the marketing plan (see Chapter 23). Because surprises and disappointments can occur as marketing plans unfold, Atlas will need feedback and control to understand the efficiency and effectiveness of its marketing activities and how it can improve them. experience. To create a strong marketing organiza- tion, marketers must think like executives in other departments, and executives in other departments must think more like marketers. 4. Today's marketplace is fundamentally different as a result of major societal forces that have resulted in many new consumer and company capabilities. In particular, technology, globalization, and social responsibility have created new opportunities and challenges and significantly changed marketing man- agement. Companies seek the right balance of tried- and-true methods with breakthrough new approaches to achieve marketing excellence. 5. There are five competing concepts under which orga- nizations can choose to conduct their business: the production concept, the product concept, the sell- Summary 1. Marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders. Marketing management is the art and science of choosing target markets and getting, keeping, and growing customers through creating, delivering, and communicating superior customer value. 2. Marketers are skilled at managing demand: They seek to influence its level, timing, and composition for goods, services, events, experiences, persons, places, prop- erties, organizations, information, and ideas. They also operate in four different marketplaces: consumer, busi- ness, global, and nonprofit. 3. Marketing is not done only by the marketing depart- ment. It needs to affect every aspect of the customer 30 PART 1 | UndeRsTAnding MARkeTing MAnAgeMenT the company's first spokesperson, had an irreverent attitude that matched Nike's spirit. In 1985, Nike signed up then-rookie guard Michael Jordan as a spokesperson. Jordan was still an up-and- comer, but he personified superior performance. Nike's bet paid off—the Air Jordan line of basketball shoes flew off the shelves and revenues hit more than $100 mil- lion in the first year alone. As one reporter stated, "Few marketers have so reliably been able to identify and sign athletes who transcend their sports to such great effect." In 1988, Nike aired the first ads in its $20 million "Just Do It" ad campaign. The campaign, which ultimately fea- tured 12 TV spots in all, subtly challenged a generation of athletic enthusiasts to chase their goals. It was a natural manifestation of Nike's attitude of self-empowerment through sports. Marketing Excellence >> Nike Nike hit the ground running in 1962. Originally known as Blue Ribbon Sports, the company focused on providing high-quality running shoes designed for athletes by ath- letes. Founder Philip Knight believed high-tech shoes for runners could be manufactured at competitive prices if imported from abroad. Nike's commitment to design- ing innovative footwear for serious athletes helped it build a cult following among U.S. consumers. Nike believed in a "pyramid of influence" where the preferences of a small percentage of top athletes influ- enced the product and brand choices of others. Nike's marketing campaigns have always featured accom- plished athletes. For example, runner Steve Prefontaine, Applications Marketing Debate Does Marketing Create or Satisfy Needs? Marketing has often been defined in terms of satisfying customers' needs and wants. Critics, however, maintain that marketing goes beyond that and creates needs and wants that did not exist before. They feel that marketers encour- age consumers to spend more money than they should on goods and services they do not really need. Take a position: Marketing shapes consumer needs and wants versus Marketing merely reflects the needs and wants of consumers. Marketing Discussion Shifts in Marketing Consider the three key forces driving the new marketing realities. How do they affect your personal marketing behaviors? How are they likely to change in the future? What other major trends or forces might affect marketing? MyMarketingLab Go to mymktlab.com to complete the problems marked with this icon as well as for additional Auto-graded and Assisted-graded writing questions. ing concept, the marketing concept, and the holistic marketing concept. The first three are of limited use today. 6. The holistic marketing concept is based on the devel- opment, design, and implementation of marketing pro- grams, processes, and activities that recognize their breadth and interdependencies. Holistic marketing rec- ognizes that everything matters in marketing and that a broad, integrated perspective is often necessary. Four components of holistic marketing are relationship mar- keting, integrated marketing, internal marketing, and performance marketing. 7. The set of tasks necessary for successful marketing management includes developing marketing strategies and plans, capturing marketing insights, connecting with customers, building strong brands, creating, deliv- ering, and communicating value, and creating long-term growth. defining MARkeTing foR The new ReAliTies | chapter 1 31 As Nike began expanding overseas, the com- pany learned that its U.S.-style ads were seen as too aggressive in Europe, Asia, and South America. Nike realized it had to "authenticate" its brand in other countries, so it focused on soccer (called football outside the United States) and became active as a sponsor of youth leagues, local clubs, and national teams. However, for Nike to build authenticity among the soccer audience, consumers had to see professional ath- letes using its product, especially athletes who won. Nike's big break came in 1994 when the Brazilian team (the only national team for which Nike had any real sponsorship) won the World Cup. That victory transformed Nike's international image from a sneaker company into a brand that represented emotion, allegiance, and identifi- cation. Nike's new alliance with soccer helped propel the brand's growth internationally. In 2003, overseas revenues surpassed U.S. revenues for the first time, and in 2007, Nike acquired Umbro, a British maker of soccer-related footwear, apparel, and equipment. The acquisition made Nike the sole supplier to more than 100 professional soc- cer teams around the world and boosted Nike's interna- tional presence and authenticity in soccer. The company sold Umbro in 2012 for $225 million. In recent years, Nike's international efforts have been focused on emerging markets. During the 2008 Summer Olympics in Beijing, Nike honed in on China and devel- oped an aggressive marketing strategy that countered Adidas's sponsorship of the Olympic Games. Nike re- ceived special permission from the International Olympic Committee to run Nike ads featuring Olympic athletes during the games. In addition, Nike sponsored several teams and athletes, including most of the Chinese teams. This aggressive sponsorship strategy helped ignite sales in the Asian region by 15 percent. In addition to expanding overseas, Nike has success- fully expanded its brand into many sports and athletic categories, including footwear, apparel, and equipment. Nike continues to partner with high-profile and influential athletes, coaches, teams, and leagues to build credibility in these categories. For example, Nike aligned with tennis stars Maria Sharapova, Roger Federer, and Rafael Nadal to push its line of tennis clothing and gear. Some called the famous 2008 Wimbledon match between Roger Federer and Rafael Nadal—both dressed in swooshes from head to toe—a five-hour Nike commercial valued at $10.6 million. To promote its line of basketball shoes and apparel, Nike has partnered with basketball superstars such as Kobe Bryant and LeBron James. In golf, Nike's swoosh appears on many golfers but most famously on Tiger Woods. In the years since Nike first partnered with Woods, Nike Golf has grown into a $523 million busi- ness and literally changed the way golfers dress and play today. Tiger's powerful influence on the game and his Nike-emblazoned style has turned the greens at the majors into "golf's fashion runway." Nike is the biggest sponsor of athletes in the world and plans to spend more than $3 billion in athletic endorsements between 2012 and 2017. The com- pany also has a history of standing by its athletes, such as Tiger Woods and Kobe Bryant, even as they struggle with personal problems. It severed its rela- tionship with Lance Armstrong in 2012, however, after strong evidence showed that the cyclist doped during his time as an athlete and while competing during all Tour de Frances. Nike released a statement explain- ing, "Nike does not condone the use of illegal perfor- mance enhancing drugs in any manner." Prior to the scandal, the company had helped develop Armstrong's LIVESTRONG campaign to raise funds for cancer. It designed, manufactured, and sold more than 80 million yellow LIVESTRONG bracelets, netting $500 million for the Lance Armstrong Foundation. While Nike's athletic endorsements help inspire and teach consumers, its most recent innovations in technology have resulted in more loyal and emotion- ally connected consumers. For example, Nike's lead in the running category has grown to 60 percent market share thanks to its revolutionary running application and community called Nike+ (plus). Nike+ allows runners to engage in the ultimate running experience by seeing their real-time pace, distance, and route and by giv- ing them coaching tips and online sharing capabilities. Nike expanded Nike+ to focus on key growth areas like basketball and exercise and recently launched Nike+ Basketball, Nike+ Kinect, and Nike+FuelBand, a bracelet/ app that tracks daily activities. Like many companies, Nike is trying to make its com- pany and products more eco-friendly. However, unlike many companies, it does not promote these efforts. One brand consultant explained, "Nike has always been about winning. How is sustainability relevant to its brand?" Nike executives agree that promoting an eco-friendly message would distract from its slick high-tech image, so efforts like recycling old shoes into new shoes are kept quiet. As a result of its successful expansion across geo- graphic markets and product categories, Nike is the top athletic apparel and footwear manufacturer in the world. In 2014, revenues exceeded $27 billion, and Nike dominated the athletic footwear market with 31 percent global market share globally and 50 percent market share in the United States. Swooshes abound on everything from wristwatches to skateboards to swimming caps. The firm's long-term strat- egy, however, is focused on running, basketball, foot- ball/soccer, men's training, women's training, and action sports. 32 PART 1 | UndeRsTAnding MARkeTing MAnAgeMenT With its ability to deploy data that enable up-to- the-minute improvements in a Web marketing program, Google supports a style of marketing in which the adver- tising resources and budget can be constantly monitored and optimized. Google calls this approach "marketing asset management," implying that advertising should be managed like assets in a portfolio depending on the market conditions. Rather than following a marketing plan developed months in advance, companies use the real- time data collected on their campaigns to optimize the campaign's effectiveness and be more responsive to the market. Since its launch, Google has expanded far beyond its search capabilities with numerous other products, applications, and tools that benefit both consumers and businesses. The goal behind each product was to help users find information they need and to help them get things done better, faster, and easier than before. Today, Google's wide range of products and services fall into the following categories: Web (Web Search, iGoogle, Google Chrome), Mobile (Mobile, Search for Mobile, Maps for Mobile), Media (Picasa, Google Play, Youtube.com, which Google acquired in 2006 for $1.65 billion), Geo (Earth, Maps), Home & Office (Docs, Gmail, Calendar), Social (Google+, Blogger), Specialized Search (Patents, Finance, Scholarly Papers), and Innovation. As the world becomes more mobile, Google is bet- ting big in the mobile category. In 2008, Google launched Android, a mobile operating system that went head to head with Apple's iPhone. The biggest differentia- tion between the two was that Android was free, open sourced, and backed by a multimillion-dollar investment. This meant that more people Google wanted its partners to help build and design Android over the years. The investment paid off, and by 2010, Android became the number-one mobile operating system in the market. As Google expanded into mobile technology, it quickly became the leader in mobile advertising with 75 percent market share for search ads and approximately 50 percent market share for all mobile ads. In 2012, Google entered the mobile device category when it purchased Motorola and launched the Nexus 7, a sleek tablet that competed directly with the iPad and Kindle. As Google looks toward Marketing Excellence >> Google In 1998, two Stanford University PhD students, Larry Page and Sergey Brin, founded a search engine com- pany and named it Google. The name plays on the number googol—1 followed by 100 zeroes—and refers to the massive quantity of data available online that the company helps users find. Google's corporate mission is "to organize the world's information and make it uni- versally accessible and useful." As such, the company focuses first and foremost on creating the perfect search engine. Google became successful because it uses the mil- lions of links on other Web sites to help determine which sites offer the most valuable content. The company has become the worldwide market leader for search engines through its strategic business focus and constant prod- uct innovation. Google creates and distributes its products for free, which in turn has attracted a host of online advertisers seeking targeted advertising space. About 96 percent of its revenues come from online advertising, which means that creating new advertising space is critical to the company's growth. Google sells advertising space on its search pages through a program called AdWords, which is related to specific keywords. Hundreds of thousands of companies use AdWords by buying "search ads," little text-based boxes shown alongside relevant search results that advertisers pay for only when users click on them. Google also makes advertising space available through a program called AdSense, which allows any Web site to display targeted Google ads relevant to the content of its site. Web site publishers earn money every time their visitors click on these ads. In addition to offering prime online real estate for advertisers, Google adds value by providing tools so businesses can better target their ads and understand the effectiveness of their marketing. Google Analytics, for example, is free to Google's advertisers and provides a custom report detailing how Internet users found the site, what ads they saw and/or clicked on, how they behaved on the site, and how much traffic was generated. Questions 1. What are the pros, cons, and risks associated with Nike's core marketing strategy? 2. If you were Adidas, how would you compete with Nike? Sources: Justin Ewers and Tim Smart, "A Designer Swooshes In," U.S. News & World Report, January 26, 2004, p. 12; "Corporate Media Executive of the Year," Delaney Report, January 12, 2004, p. 1; Barbara Lippert, "Game Changers: Inside the Three Greatest Ad Campaigns of the Past Three Decades," Adweek, November 17, 2008; "10 Top Nontraditional Campaigns," Advertising Age, December 22, 2003, p. 24; Chris Zook and James Allen, "Growth Outside the Core," Harvard Business Review, December 2003, p. 66; Jeremy Mullman, "NIKE; What Slowdown? Swoosh Rides Games to New High," Advertising Age, October 20, 2008, p. 34; Allison Kaplan, "Look Just Like Tiger (until You Swing)," America's Intelligence Wire, August 9, 2009; Reena Jana and Burt Helm, "Nike Goes Green, Very Quietly," BusinessWeek, June 22, 2009; Emily Jane Fox and Chris Isidore, "Nike Ends Contracts with Armstrong," CNNMoney.com, October 17, 2012; Nike Annual Report 2012. defining MARkeTing foR The new ReAliTies | chapter 1 33 the future, the company wants to offer the ultimate mobile solution—Google mobile devices along with Google ser- vices so users can use all Google all the time. Google's ultimate goal is to reach as many people as pos- sible, on the Web—whether by PC or by mobile devices. The more users on the Web, the more adver- tising Google can sell, so Google does not only accomplish this goal but also make the Web a more per- sonalized experience. Google has enjoyed great success as a company and a brand in its short lifetime. From the beginning, it has strived to be one of the "good guys" in the corpo- rate world, pursuing a touchy-feely work environment, strong ethics, and a famous founding credo: "Don't be evil." Google currently holds a 67 percent market share for core searches in the United States, significantly greater than Microsoft's 17 percent and Yahoo!'s 15 per- cent market shares. Globally, Google holds a more domi- nant lead, with 85 percent market share over Yahoo!'s 8 percent and Microsoft's 3 percent. Google's revenues topped $59 billion in 2013, and the company was ranked the second most powerful brand in the world with a brand value of $107 billion. In addition, Google's $400 billion market capitalization in 2014 edged out companies like Walmart and Microsoft to become the second most valuable company in the world. Questions 1. With a portfolio as diverse as Google's, what are the company's core brand values? 2. What's next for Google? Is the company right to put so much focus on Mobile? Sources: www.google.com; Catherine P. Taylor, "Google Flex," Adweek, March 20, 2006, cover story; Richard Karpinski, "Keywords, Analytics Help Define User Lifetime Value," Advertising Age, April 24, 2006, p. 52; Danny Gorog, "Survival Guide," Herald Sun, March 29, 2006; Julie Schlosser, "Google," Fortune, October 31, 2005, pp. 168–69; Jefferson Graham, "Google's Profit Sails Past Expectations," USA Today, October 21, 2005; Dan Frommer,"Google's Android Mobile Platform Is Getting Huge," Advertising Age, October 8, 2009; Rita Chang, "Google Set for Richer Advertising on Smartphones," Advertising Age, October 5, 2009; "comScore Releases September 2012 U.S. Search Engine Rankings," comScore.com, October 11, 2012; Claire Cain Miller, "As Google Changes, Its Revenue Keeps Rising," The New York Times, July 19, 2012; Roben Farzad, "Google at $400 Billion: A New No. 2 in Market Cap," Bloomberg Businessweek, February 12, 2104. 34 In This Chapter, We Will Address the Following Questions 1. How does marketing affect customer value? (p. 35) 2. How is strategic planning carried out at the corporate and division levels? (p. 38) 3. How is strategic planning carried out at the business unit level? (p. 48) 4. How is planning carried out at the product level? (p. 55) HP, led by President and CEO Meg Whitman, is revising its corporate strategy to reflect significant changes in the marketing environment. Source: ChinaFotoPress via Getty Images Improve Your Grade! Over 10 million students improved their results using the Pearson MyLabs. Visit mymktlab.com for simulations, tutorials, and end-of-chapter problems. MyMarketingLab™ 35 Marketing and Customer Value The task of any business is to deliver customer value at a profit. A company can win only by fine-tuning the value delivery process and choosing, providing, and communicating superior value to increasingly well-informed buyers. The Value DelIVerY Process The traditional—but dated—view of marketing is that the firm makes something and then sells it, with market- ing taking place during the selling process. Companies that take this view succeed only in economies marked by goods shortages where consumers are not fussy about quality, features, or style—for example, basic staple goods in developing markets. In economies with many different types of people, each with individual wants, perceptions, preferences, and buying criteria, the smart competitor must design and deliver offerings for well-defined target markets. This realization inspired a new view of business processes that places marketing at the beginning of planning. Instead of emphasizing making and selling, companies now see themselves as part of a value delivery process. We can divide the value creation and delivery sequence into three phases.2 First, choosing the value is the "homework" marketers must do before any product exists. They must segment the market, select the appropri- ate target, and develop the offering's value positioning. The formula "segmentation, targeting, positioning (STP)" is the essence of strategic marketing. The second phase is providing the value. Marketing must identify specific product features, prices, and distribution. The task in the third phase is communicating the value by utilizing the Internet, advertising, sales force, and any other communication tools to announce and promote the product. The value delivery process begins before there is a product and continues through development and after launch. Each phase has cost implications. This chapter begins by examining some of the stra- tegic marketing implications in creating customer value. We'll look at several perspectives on planning and describe how to draw up a formal marketing plan. Developing the right marketing strategies over time requires a blend of discipline and flexibility. Firms must stick to a strategy but also constantly improve it. In today's fast-changing marketing world, identifying the best long-term strategy is crucial—but challenging—as HP has been finding out. 1 A true technology pioneer, Hewlett-Packard (HP) has encountered much difficulty in recent years, culminating in a massive quarterly charge of more than $9.5 billion in 2012, its biggest ever. Of that total, $8 billion was a write-down in the value of its IT services unit as the result of a disastrous acquisition of EDS. Revenue for the unit dropped when customers stopped signing large, long-term outsourcing contracts that were at the core of the unit's business model. At rival Oracle, among other factors, hurt HP's sales of large servers to business customers. In a maturing market with few good new prod- ucts, PC sales slowed so much that HP announced it was exiting the business. Printer and ink sales dropped as con- sumers began to print less. New CEO Meg Whitman vowed to increase the company's emphasis on design, reorganizing the PC group to come up with a cleaner, minimalist sensibility. Admitting that the company did not yet have a strategy for Mobile, Whitman acknowledged there was much work to be done. Developing Marketing Strategies and Plans 2 A true technology pioneer, Hewlett-Packard (HP) has encountered much difficulty in recent years, acquisition of EDS. Revenue for the unit dropped when customers stopped signing large, long-term 36 PART 1 | UndeRsTAnding MARkeTing MAnAgeMenT The Value chaIn Harvard's Michael Porter has proposed the value chain as a tool for identifying ways to create more customer value.3 According to this model, every firm is a synthesis of activities performed to design, produce, market, deliver, and support its product. Nine strategically relevant activities—five primary and four support activities—create value and cost in a specific business. The primary activities are (1) inbound logistics, or bringing materials into the business; (2) operations, or converting materials into final products; (3) outbound logistics, or shipping out final products; (4) mar- keting, which includes sales; and (5) service. Specialized departments handle the support activities—(1) procurement, (2) technology development, (3) human resource management, and (4) firm infrastructure. (Infrastructure covers the costs of general management, planning, finance, accounting, legal, and government affairs.) The firm's task is to examine its costs and performance in each value-creating activity, benchmark against competitors, and look for ways to improve. Managers can identify the "best of class" practices of the world's best companies by consulting customers, suppliers, distributors, financial analysts, trade associations, and the media to see who seems to be doing the best job. Even the best companies can benchmark, against other industries if necessary, to improve their performance. GE has benchmarked against P&G as well as developing its own best practices.4 The firm's success depends not only on how well each department performs its work, but also on how well the company coordinates departmental activities to conduct core business processes.5 These processes include: • The market-sensing process—gathering and acting upon information about the market • The new-offering realization process—researching, developing, and launching new high-quality offerings quickly and within budget • The customer acquisition process—defining target markets and prospecting for new customers • The customer relationship management process—building deeper understanding, relationships, and offer- ings to individual customers • The fulfillment management process—receiving and approving orders, shipping goods on time, and collect- ing payment Strong companies are reengineering their work flows and building cross-functional teams to be responsible for each process.6 Ford established a cross-functional team to help reduce water usage per vehicle by 30 percent.7 AT&T, LexisNexis, and Pratt & Whitney have reorganized their employees into cross-functional teams; cross- functional teams operate in nonprofit and government organizations as well. 8 A firm also needs to look for competitive advantages beyond its own operations in the value chains of suppli- ers, distributors, and customers. Many companies today have partnered with specific suppliers and distributors to create a superior value delivery network, also called a supply chain. core comPeTencies Companies today outsource less-critical resources if they can obtain better quality or lower cost. The key is to own and nurture the resources and competencies that make up the essence of the business. Many textile, chemical, and computer/electronic product firms use offshore manufacturers and focus on product design and develop- ment and marketing, their core competencies. A core competency has three characteristics: (1) It is a source of competitive advantage and makes a significant contribution to perceived customer benefits; (2) it has applica- tions in a wide variety of markets; and (3) it is difficult for competitors to imitate. Competitive advantage also accompanies distinctive capabilities or excellence in broader business processes. Wharton's George Day sees market-driven organizations as excelling in three distinctive capabilities: market sensing, customer linking, and channel bonding.9 In terms of market sensing, Day believes tremendous opportu- nities and threats often begin as "weak signals" from the "periphery" of a business.10 He suggests systematically developing peripheral vision by asking three questions related to learning from the past, evaluating the present, and envisioning the future. Businesses may need to realign themselves to maximize core competencies. Realignment has three steps: (1) (re)defining the business concept or "big idea"; (2) (re)shaping the business scope, sometimes geographically; and (3) (re)positioning the company's brand identity. Peabody Energy implemented a new global organizational structure—creating geographic business units in the Americas, Australia, and Asia—to reflect its growing global footprint.11 Changes in business fortunes often necessitate realignment and restructuring, as Panasonic and other Japanese technology and electronic companies found.12 developINg MARkeTINg sTRATegIes ANd PlANs | chapter 2 37 PanasOnic As Panasonic approaches its 100th anniversary in 2018, it faces unprecedented difficulties, notably a massive loss of roughly $19 billion over 2011 and 2012. For years, its "Ideas for Life" positioning had fueled innovation, generating successful products like its rugged Toughbook notebook computers. Its television sets and other home electronics ran into trouble, however, when the economy stalled just as consumers began to treat flat-screen LCD televisions as a commodity. Further, a strong yen and high manufacturing costs in Japan made it difficult for Panasonic to compete on price. Anti-Japanese sentiment from a territorial dispute proved a stumbling block in China. Finally, the acquisition of Sanyo in 2009, designed to help the company sell more green-energy products, was disappointing. A major restructuring by new presi- dent Kazuhiro Tsuga in fall 2012 scaled back manufacturing in Japan, abandoned the mobile phone market overseas, and cut back investment in solar panels and rechargeable batteries. Tsuga emphasized that Panasonic will streamline business units and emphasize profit, not just revenue growth. The cenTRal role of sTRaTeGic PlanninG Only a select group of companies have historically stood out as master marketers (see Table 2.1). These compa- nies focus on the customer and are organized to respond effectively to changing needs. They all have well-staffed marketing departments, and their other departments accept that the customer is king. They also often have strong marketing leadership in the form of a successful CMO (see "Marketing Memo: What Does It Take to Be a Successful CMO?"). To ensure they execute the right activities, marketers must prioritize strategic planning in three key areas: (1) managing the businesses as an investment portfolio, (2) assessing the market's growth rate and the company's position in that market, and (3) establishing a strategy. The company must develop a game plan for achieving each business's long-run objectives. Most large companies consist of four organizational levels: (1) corporate, (2) division, (3) business unit, and (4) product. Corporate headquarters is responsible for designing a corporate strategic plan to guide the whole enter- prise; it makes decisions on the amount of resources to allocate to each division as well as on which businesses to start or eliminate. Each division establishes a plan covering the allocation of funds to each business unit within the division. Each business unit develops a strategic plan to carry that business unit into a profitable future. Finally, each product level (product line, brand) develops a marketing plan for achieving its objectives. The marketing plan is the central instrument for directing and coordinating the marketing effort. It operates at two levels: strategic and tactical. The strategic marketing plan lays out the target markets and the firm's value proposition, based on an analysis of the best market opportunities. The tactical marketing plan specifies the marketing tactics, including product features, promotion, merchandising, pricing, sales channels, and service. The complete planning, implementation, and control cycle of strategic planning is shown in Figure 2.1. Next, we con- sider planning at each of the four levels of the organization. So ur ce : A lb er to C ris to fa ri/ A 3/ co nt ra st o/ R ed ux Panasonic has encountered some marketplace challenges in recent years, forcing it to make changes in what businesses it is in and how they are run. 38 PART 1 | UndeRsTAndINg MARkeTINg MANAgeMeNT Corporate and Division Strategic Planning Whether they let their business units set their own goals and strategies or collaborate in doing so, all corporate headquarters undertake four planning activities: 1. Defining the corporate mission 2. Establishing strategic business units 3. Assigning resources to each strategic business unit 4. Assessing growth opportunities We'll briefly look at each process. Organizing Implementing Diagnosing results Planning Implementing Controlling Measuring results Taking corrective action Corporate planning Division planning Business planning Product planning | Fig. 2.1 | The Strategic Planning, Implemen- tation, and Control Processes Table 2.1 Some Examples of Master Marketers Amazon.com Enterprise Rent-A-Car Red Bull Apple Google Ritz-Carlton Bang & Olufsen Harley-Davidson Samsung Best Buy Honda Southwest Airlines BMW IKEA Starbucks Caterpillar LEGO Target Club Med McDonald's Tesco Costco Nike Toyota Disney Nordstrom Virgin eBay Procter & Gamble Walmart Electrolux Progressive Insurance Whole Foods developINg MARkeTINg sTRATegIes ANd PlANs | chapter 2 39 The challenge chief marketing officers (CMOs) face is that success factors are many and varied. CMOs must have strong quantitative and qualitative skills; they must have an independent, entrepreneurial attitude but work closely with other departments; and they must capture the "voice" of consumers yet have a keen bottom-line understanding of how marketing creates value. Two-thirds of top CMOs think return-on-marketing-investment (ROMI) will be the primary measure of their effectiveness in 2015. One survey asking 200 senior-level marketing executives which innate and learned qualities were most important yielded these answers: Innate Qualities Learned Qualities • Risk taker • Global experience • Willingness to make decisions • Multichannel expertise • Problem-solving ability • Cross-industry experience • Change agent • Digital focus • Results-oriented • Operational knowledge Marketing experts George Day and Robert Malcolm believe three driving forces will change the role of the CMO in the coming years: (1) predictable marketplace trends, (2) the changing role of the C-suite, and (3) uncertainty about the economy and organizational design. They identify five priorities for any successful CMO: 1. Act as the visionary for the future of the company. 2. Build adaptive marketing capabilities. 3. Win the war for marketing talent. 4. Tighten the alignment with sales. 5. Take accountability for returns on marketing spending. Perhaps the most important role for any CMO is to infuse a customer perspective in business decisions affecting any customer touch point (where a cus- tomer directly or indirectly interacts with the company). Increasingly, these customer insights must have a global focus. As one top executive search firm leader said, "Tomorrow's CMO will have to have global and international experience. You can do it without living abroad . . . but you have to get exposure to those markets. In your eyes you need to have new ways of doing business, increases cultural sensitivity and increases flexibility." Sources: Jennifer Rooney, "CMO Tenure Hits 43-Month Mark," Forbes, June 14, 2012; Steven Cook, "It's Time to Raise the CMO Bar," www.cmo.com, January 24, 2012; "From Stretched to Strengthened: Insights from the Global Chief Marketing Officer Study," IBM CMO C-Suite Studies, October 2011; Natalie Zmuda, "Global Experience Rises as Prerequisite to Getting Ahead," Advertising Age, June 10, 2012; George S. Day and Robert Malcolm, "The CMO and the Future of Marketing," Marketing Management, Spring 2012, pp. 34–43; Marc De Swann Arons and Frank Van Den Driest, The Global Brand CEO: Building the Ultimate Marketing Machine (New York: Airstream, 2011); Marylee Sachs, The Changing MO of the CMO: How the Convergence of Brand and Reputation Is Affecting Marketers (Surry, England: Gower, 2011); Marylee Sachs, What the New Breed of CMOs Know That You Don't (Surry, England: Gower, 2013). What Does it Take to Be a Successful CMO?marketing memo DefInInG The corPoraTe mIssIon An organization exists to accomplish something: to make cars, lend money, provide a night's lodging. Over time, the mission may change to respond to new opportunities or market conditions. Amazon.com changed its mission from being the world's largest online bookstore to aspiring to be the world's largest online store; eBay changed from running online auctions for collectors to running online auctions of all kinds of goods; and Dunkin' Donuts switched its emphasis from doughnuts to coffee. To define its mission, a company should address Peter Drucker's classic questions:13 What is our business? Who is the customer? What is of value to the customer? What will our business be? What should our business be? These simple-sounding questions are among the most difficult a company will ever face. Successful companies continuously ask and answer them. business DefInITion Companies often define themselves in terms of products: They are in the "auto business" or the "clothing business." Market definitions of a business, however, describe the business as a customer- satisfying process. Products are transient; basic needs and customer groups endure forever. Transportation is a need: the horse and carriage, automobile, railroad, airline, ship, and truck are products that meet that need. Consider how Steelcase takes a market definition approach to its business.14 40 PART 1 | UndeRsTAndINg MARkeTINg MANAgeMeNT steelcase The world's best-selling maker of office furniture, Steelcase describes itself as "the global leader in furnishing the work experience in office environments." Defining its business broadly, former CEO James Hackett believes, "enabled a lot of the great insights that we had found out about work to be transferred beyond the office (and into furnishing home offices, schools and health care facilities)." Steelcase uses a 23-person research team to gain those insights and conducts interviews and surveys, films office activities, and uses sensors to measure how workers use rooms and furnishings. Firms are ordering fewer cubicles and filing cabinets, for instance, and more benches, tables, and café seating to free employees to brainstorm and collaborate. Hackett defined the trend as the move from an "I/Fixed" to a "We/Mobile" mentality. Increased performance is the company's key goal. If it feels it will make workers happier and more productive, Steelcase can convince a firm to modernize and upgrade its office furniture. Viewing businesses in terms of customer needs can suggest additional growth opportunities. Table 2.2 lists companies that have moved from a product to a market definition of their business. A target market definition tends to focus on selling a product or service to a current market. Pepsi could define its target market as everyone who drinks carbonated soft drinks, and competitors would therefore be other carbonated soft drink companies. A strategic market definition, however, also focuses on the potential market. If Pepsi considered everyone who might drink something to quench his or her thirst, its competition would include noncarbonated soft drinks, bottled water, fruit juices, tea, and coffee. So ur ce : © St ee lc as e 20 14 Steelcase has found much success by redefining its business as more broadly than office furniture. Table 2.2 Product-Oriented versus Market-Oriented Definitions of a Business Company Product Definition Market Definition Union Pacific Railroad We run a railroad. We are a people-and-goods mover. Xerox We make copying equipment. We help improve office productivity. Hess Corporation We sell gasoline. We supply energy. Paramount Pictures We make movies. We market entertainment. Encyclopaedia Britannica We sell encyclopedias. We distribute information. Carrier We make air conditioners and furnaces. We provide climate control in the home. developINg MARkeTINg sTRATegIes ANd PlANs | chapter 2 41 CrafTIng a Mssion sTaTeMenT A clear, thoughtful mission statement, developed collaboratively with and shared with managers, employees, and often customers, provides a shared sense of purpose, direction, and opportunity. At its best it reflects a vision, an almost "impossible dream," that provides direction for the next 10 to 20 years. Sony's former president, Akio Morita, wanted everyone to have access to "personal portable sound," so his company created the Walkman and portable CD player. Fred Smith wanted to deliver mail anywhere in the United States before 10:30 am the next day, so he created FedEx. Good mission statements have five major characteristics. 1. They focus on a limited number of goals. Compare a vague mission statement such as "To build total brand value by innovating to deliver customer value and customer leadership faster, better, and more completely than our competition" to Google's ambitious but more focused mission statement, "To organize the world's information and make it universally accessible and useful." 2. They stress the company's major policies and values. Narrowing the range of individual discretion lets employees act consistently on important issues. 3. They define the major competitive spheres within which the company will operate. Table 2.3 summarizes some key competitive dimensions for mission statements. 4. They take a long-term view. Management should change the mission only when it ceases to be relevant. 5. They are as short, memorable, and meaningful as possible. Marketing consultant Guy Kawasaki advocates developing three- to four-word corporate mantras—like "Enriching Women's Lives" for Mary Kay—rather than mission statements.15 Table 2.3 Defining Competitive Territory and Boundaries in Mission Statements • Industry. Some companies operate in only one industry; some only in a set of related industries; some only in industrial goods, consumer goods, or services; and some in any industry. • Caterpillar focuses on the industrial market; John Deere operates in the industrial and consumer markets. • Products and applications. Firms define the range of products and applications they will supply. • St. Jude Medical's mission is "develop medical technology and services that put more control into the hands of those who treat cardiac, neurological and chronic pain patients, worldwide. We do this because we are dedicated to advancing the practice of medicine by reducing risk wherever possible and contributing to successful outcomes for every patient." • Competence. The firm identifies the range of technological and other core competencies it will master and leverage. • Japan's NEC has built its core competencies in computing, communications, and components to support production of laptop computers, television receivers, and handheld telephones. • Market segment. The type of market or customers a company will serve is the market segment. • Aston Martin makes only high-performance sports cars. Gerber serves primarily the baby market. • Vertical. The vertical sphere is the number of channel levels, from raw material to final product and distribution, in which a company will participate. • At one extreme are companies with a large vertical scope. American Apparel dyes, designs, sews, markets, and distributes its line of clothing apparel out of a single building in downtown Los Angeles.16 • At the other extreme are "hollow corporations," which outsource the production of nearly all goods and services to suppliers. Metro newspaper is published in 56 editions in 22 countries on four continents and is read by more than 17 million people every day. It employs few reporters and owns no printing presses; instead it purchases its articles from other news sources and outsources all its printing and much of its distribution to third parties.17 • Geographical. The range of regions, countries, or country groups in which a company will operate defines its geographical sphere. • Some companies operate in a specific city or state. Others are multinationals like Deutsche Post DHL and Royal Dutch/Shell, which each operate in more than 100 countries. 42 PART 1 | UndeRsTAndINg MARkeTINg MANAgeMeNT esTablIshInG sTraTeGIc busIness unITs Large companies normally manage quite different businesses, each requiring its own strategy. At one time, General Electric classified its businesses into 49 strategic business units (SBUs). An SBU has three characteristics: 1. It is a single business, or a collection of related businesses, that can be planned separately from the rest of the company. 2. It has its own set of competitors. 3. It has a manager responsible for strategic planning and profit performance, who controls most of the factors affecting profit. The purpose of identifying the company's strategic business units is to develop separate strategies and assign appropriate fund- ing. Senior management knows its portfolio of businesses usually includes a number of "yesterday's has-beens" as well as "tomor- row's winners." Liz Claiborne has put more emphasis on some of its younger businesses such as Juicy Couture, Lucky Brand Jeans, Mexx, and Kate Spade while selling businesses without the same buzz (Ellen Tracy, Sigrid Olsen, and Laundry). assIGnInG resources To each sbu18 Once it has defined SBUs, management must decide how to allocate corporate resources to each. The GE/McKinsey Matrix classified each SBU by the extent of its competitive advantage and the attractiveness of its industry. Management could decide to grow, "harvest" or draw cash from, or hold on to the business. BCG's Growth-Share Matrix used relative market share and annual rate of mar- ket growth as criteria for investment decisions, classifying SBUs as dogs, cash cows, question marks, and stars. Portfolio-planning models like these have largely fallen out of favor as oversimplified and subjective. Newer methods rely on shareholder value analysis and on whether the market value of a company is greater with an SBU or without it. These value calculations assess the potential of a business based on growth opportunities from global expansion, repositioning or retargeting, and strategic outsourcing. assessInG GrowTh oPPorTunITIes Assessing growth opportunities includes planning new businesses, downsizing, and terminating older businesses. If there is a gap between future desired sales and projected sales, corporate management will need to develop or acquire new businesses to fill it. Figure 2.2 illustrates this strategic-planning gap for a hypothetical manufacturer of blank DVD discs called Cineview. The lowest curve projects expected sales from the current business portfolio over the next So ur ce : W P/ A la m y Metro outsources much of its production and operations for the different newspapers which it publishes in markets around the world. Strategic-Planning Gap Time (years) 0 5 Sa le s ($ m ill io ns) 4321 Diversification g rowth Integrative growth Intensive growth Desired sales Current portfolio | Fig. 2.2 | The Strategic- Planning Gap developINg MARkeTINg sTRATegIes ANd PlANs | chapter 2 43 So ur ce : © P at ti M cC on vi lle/ A la m y Liz Claiborne has put more emphasis on its Juicy Couture stores than its other slower-growing lines of business. five years. The highest describes desired sales over the same period. Evidently, the company wants to grow much faster than its current businesses will permit. How can it fill the strategic-planning gap? The first option is to identify opportunities for growth within current businesses (intensive opportunities). The second is to identify opportunities to build or acquire businesses related to cur- rent businesses (integrative opportunities). The third is to identify opportunities to add attractive unrelated businesses (diversification opportunities). inTensive growTh Corporate management should first review opportunities for improving existing businesses. One useful framework is a "product-market expansion grid," which considers the strategic growth opportunities for a firm in terms of current and new products and markets. The company first considers whether it could gain more market share with its current products in their current markets, using a market-penetration strategy. Next it considers whether it can find or develop new markets for its current products, in a market- development strategy. Then it considers whether it can develop new products for its current markets with a product- development strat- egy. Later the firm will also review opportunities to develop new products for new markets in a diversification strategy. Consider how ESPN has pursued a variety of growth opportunities (see Figure 2.3).19 esPn Through its singular focus on sports programming and news, ESPN grew from a small regional broad- caster into the biggest name in sports. In the early 1990s, the company crafted a well-thought-out plan: Wherever sports fans watched, read, and discussed sports, ESPN would be there. It pursued this strategy by expanding its brand and now encompasses 10 cable channels, a Web site, a magazine, a few restaurants (ESPN Zone), more than 600 lo- cal radio affiliates, original movies and television series, book publishing, a sports merchandise catalog and online store, music and video games, and a mobile service. ESPN International partly or wholly owns 47 television networks outside the United States and a variety of additional businesses that reach sports fans in more than 200 countries and territories across all seven continents. Now owned by The Walt Disney Company, ESPN contributes $9.4 billion a year in revenue, or roughly three-fourths of Disney's total cable network revenues. But perhaps the greatest tribute to the power of its brand came from one male focus group respondent who said, "If ESPN was a woman, I'd marry her." So how might Cineview use these three major intensive growth strategies to increase its sales? It could try to encourage its current customers to buy more by demonstrating the benefits of using DVD discs for data stor- age in addition to video storage. It could try to attract competitors' customers if it noticed major weaknesses in their products or marketing programs. Finally, Cineview could try to convince nonusers to start using blank DVD discs. How can Cineview use a market-development strategy? First, it might try to identify potential user groups in the current sales areas. If it has been selling DVD discs only to consumer markets, it might go after office and factory markets. Second, it might seek additional distribution channels by adding mass merchandising or online channels. Third, the company might sell in new locations in its home country or abroad. Management should also consider new-product possibilities. Cineview could develop new features, such as additional data storage capabilities or greater durability. It could offer the DVD discs at two or more quality levels, or it could research an alternative technology such as flash drives. These intensive growth strategies offer several ways to grow. Still, that growth may not be enough, and manage- ment must also look for integrative growth opportunities. 44 PART 1 | UndeRsTAndINg MARkeTINg MANAgeMeNT inTegraTive growTh A business can increase sales and profits through backward, forward, or horizontal integration within its industry. Merck formed joint ventures as far back as 1989 with Johnson & Johnson to sell over-the-counter pharmaceuticals and 1991 with DuPont to expand basic research. In 1997, Merck and Rhone-Poulenc S.A. (now Sanofi-Aventis S.A.) combined their animal health and poultry genetics businesses to form Merial Limited, a fully integrated animal health company. Finally, Merck acquired Schering-Plough in 2009.20 Horizontal mergers and alliances don't always work out. The merger between Sears and Kmart didn't solve either retailer's problems.21 Nextel Communications Inc. merged with Sprint in 2005 in what Bloomberg's financial analysts called one the worst mergers of the past 10 years, in part due to their incompatible networks.22 Consider the challenges faced by United and Continental in their merger.23 United and cOntinental Airline mergers are notoriously tricky, laden with regulations and a host of potentially conflicting considerations about safety, cost, style, reliability, convenience, speed, and comfort. United's merger with Continental made sense strategically and financially, but logistical problems seemed endless because the two airlines ran their businesses in very different ways, from boarding procedures to the way they brought planes into the gate. Even coffee was a thorny issue; United served Starbucks while Continental used a brand called Fresh Brew. After extensive research, a suitable compromise was identified—a lighter fresh blend called Journeys—but customers were unimpressed until the company discovered the two airlines had different brew baskets and United's was actually leaking water and diluting the coffee. New pillow packs were commissioned to address that problem. Online Television Interactive Other Media ESPN Zone ESPN Wide World Sports Complex PrintConsumer Products ESPN The Magazine ESPN La Revista Revista ESPN ESPN Books ESPN Books ESPN Music ESPN Video Games ESPN Shop Online ESPN.com ESPNRadio.com ESPNDeportes .com ESPNSoccer net.com ESPNCricinfo .com ESPNScrum .com ESPNF1.com ESPN ESPN2 ESPN3 ESPN 3D ESPNU ESPN onABC ESPN Classic ESPN Deportes ESPN News ESPN Deportes Radio ESPN Mobile ESPN Radio ESPN Walt Disney ESPN Brand Hierarchy | Fig. 2.3 | ESPN Growth Opportunities developINg MARkeTINg sTRATegIes ANd PlANs | chapter 2 45 Media companies, on the other hand, have long reaped the benefits of integrative growth. Consider how NBC Universal leveraged one of its properties:24 Following the 2006 Curious George movie release via Universal Pictures, Curious George the TV show was released on PBS Kids as a joint production by Universal Studios Family Productions, Imagine Entertainment and WGBH Boston. Universal Studios Hollywood currently has an Adventures of Curious George ride where kids can "soak up the thrills of a five hundred gallon water dump and unleash thousands of flying foam balls. . . . " How might Cineview achieve integrative growth? The company might acquire one or more of its suppliers, such as plastic material producers, to gain more control or generate more profit through backward integration. It might acquire some wholesalers or retailers, especially if they are highly profitable, in forward integration. Finally, Cineview might acquire one or more competitors, provided the government does not bar this horizontal integration. However, these new sources may still not deliver the desired sales volume. In that case, the company must consider diversification. ESPN's flagship SportsCenter program is an anchor of its television network and related sports businesses. So ur ce : A ss oc ia te d Pr es s United and Continental found it harder to merge their airlines than just blending their logos on their planes. So ur ce : E SP N , In c . 46 PART 1 | UndeRsTAndINg MARkeTINg MANAgeMeNT DiversifiCaTion growTh Diversification growth makes sense when good opportunities exist outside the present businesses—the industry is highly attractive and the company has the right mix of business strengths to succeed. From its origins as an animated film producer, The Walt Disney Company has moved into licensing characters for merchandised goods, publishing general interest fiction books under the Hyperion imprint, entering the broadcast industry with its own Disney Channel as well as ABC and ESPN, developing theme parks and vacation and resort properties, and offering cruise and commercial theatre experiences. Several types of diversification are possible for Cineview. First, the company could choose a concentric strategy and seek new products that have technological or marketing synergies with existing product lines, though appeal- ing to a different group of customers. It might start a compact disc manufacturing operation because it knows how to manufacture DVD discs or a flash drive manufacturing operation because it knows digital storage. Second, it might use a horizontal strategy and produce plastic DVD cases, for example, though they require a different manufacturing process. Finally, the company might seek new businesses with no relationship to its current technology, products, or markets, adopting a conglomerate strategy to consider making application software or personal organizers. Downsizing anD DivesTing olDer businesses Companies must carefully prune, harvest, or divest tired old businesses to release needed resources for other uses and reduce costs. To focus on its travel and credit card operations, American Express spun off American Express Financial Advisors, which provided insurance, mutual funds, investment advice, and brokerage and asset management services (it was renamed Ameriprise Financial). American International Group (AIG) agreed to sell two of its subunits—American General Indemnity Co. and American General Property Insurance Co.—to White Mountains Insurance Group as part of a long-term growth strategy to discard redundant assets and focus on its core operations.25 orGanIzaTIon anD orGanIzaTIonal culTure Strategic planning happens within the context of the organization. A company's organization consists of its structures, policies, and corporate culture, all of which can become dysfunctional in a rapidly changing business environment. Whereas managers can change structures and policies (though with difficulty), the com- pany's culture is very hard to change. Yet adapting the culture is often the key to successfully implementing a new strategy. What exactly is a corporate culture? Some define it as "the shared experiences, stories, beliefs, and norms that characterize an organization." Walk into any company and the first thing that strikes you is the corporate culture—the way people dress, talk to one another, and greet customers. A customer-centric culture can affect all aspects of an organization. Enterprise Rent-A-Car features its own employees in its latest "The Enterprise Way" ad campaign. Through its "Making It Right" training program, So ur ce : G et ty Im ag es Enterprise Rent-A-Car is known for its strong consumer-centric corporate culture. developINg MARkeTINg sTRATegIes ANd PlANs | chapter 2 47 Enterprise empowers all employees to make their own decisions. One ad in the campaign, themed "Fix Any Problem," reinforces how any local Enterprise employee has the authority to take actions to maximize customer satisfaction.26 MarkeTinG innovaTion Innovation in marketing is critical. Imaginative ideas on strategy exist in many places within a company. Senior management should identify and encourage fresh ideas from three generally underrepresented groups: employees with youthful or diverse perspectives, employees far removed from company headquarters, and employees new to the industry. Each group can challenge company orthodoxy and stimulate new ideas. British-based Reckitt Benckiser has been an innovator in the staid household cleaning products industry by generating 35 percent of sales from products under three years old.27 Its multinational staff is encouraged to dig deep into consumer habits and is well rewarded for excellent performance. Slovenia-based Krka—makers of pre- scription pharmaceuticals, non-prescription products and animal health products—aims to generate more than 40 percent of its total sales from new products.28 "Marketing Insight: Creating Innovative Marketing" describes how some leading companies approach innovation. Firms develop strategy by choosing their view of the future. The Royal Dutch/Shell Group has pioneered scenario analysis, which develops plausible representations of a firm's possible future using assumptions about forces driving the market and different uncertainties. Managers think through each scenario with the question, "What will we do if it happens?," adopt one scenario as the most probable, and watch for signposts that might confirm or disconfirm it.29 Consider the strategic challenges faced by the movie industry.30 parks and Walmart in retailing as examples of companies that were successful by executing a big idea brilliantly over a long period of time. To find breakthrough ideas, some companies immerse a range of employees in solving marketing problems. Samsung's Value Innovation Program (VIP) isolates product development teams of engineers, designers, and planners with a timetable and end date in the com- pany's center just south of Seoul, Korea, while 50 specialists help guide their activities. To help make tough trade-offs, team members draw "value curves" that rank attributes such as a product's sound or picture quality on a scale from 1 to 5. To develop a new car, BMW mobilizes specialists in engineering, design, production, marketing, purchasing, and finance at its Research and Innovation Center or Project House. Companies like Facebook and Google kickstart the creative problem-solving process by using the phrase, "How might we?" Tim Brown, CEO of IDEO, says IDEO asks "how might we" with each design challenge, "The 'How' part assumes there are solutions out there—it provides creative confidence," Brown said. "The 'Might' part says we can put ideas out there that might work or might not—either way, it's OK. And the 'We' part says we're going to do it together and build on each other's ideas." Sources: Steve Hamm, "Innovation: The View from the Top," BusinessWeek, April 3, 2006, pp. 52–53; Jena McGregor, "The World's Most Innovative Companies," BusinessWeek, April 24, 2006, pp. 63–74; Rich Karlgard, "Digital Rules," Forbes, March 13, 2006, p. 31; Jennifer Rooney and Jim Collins, "Being Great Is Not Just a Matter of Big Ideas," Point, June 2006, p. 20; Moon Ihlwan, "Camp Samsung," BusinessWeek, July 3, 2006, pp. 46–47; Mohanbir Sawhney, Robert C. Wolcott, and Inigo Arroniz, "The 12 Different Ways for Companies to Innovate," MIT Sloan Management Review (Spring 2006), pp. 75–85; Victoria Barret, "Why Salesforce.com Ranks #1 on Forbes Most Innovative List," Forbes, September 2012; Warren Berger, "The Secret Phrase Top Innovators Use," HBR Blog Network, September 17, 2012. marketing insight Creating Innovative Marketing When IBM surveyed top CEOs and government leaders about their pri- orities, business-model innovation and coming up with unique ways of doing things scored high. IBM's own drive for business-model innova- tion led to much collaboration, both within IBM and externally with com- panies, governments, and educational institutions. Then-CEO Samuel Palmisano noted how the breakthrough Cell processor, based on the company's Power architecture, would not have happened without col- laboration with Sony and Nintendo, as well as competitors Toshiba and Microsoft. Procter & Gamble (P&G) has made it a goal for 50 percent of new products to come from outside its labs—from inventors, scientists, and suppliers whose new-product ideas can be developed in-house. Mark Benioff, CEO and co-founder of Salesforce.com, believes the key to innovation is the ability to adapt. While the company spent years relying on disruptive ideas to come from within, it acquired two firms for $1 billion because it "couldn't afford to wait" and has purchased 24 firms in total. As Benioff notes, "Innovation is a continuum. You have to think about how the world is evolving and transforming. Are you part of the continuum?" Business guru Jim Collins's research emphasizes the importance of systematic, broad-based innovation: "Always looking for the one big breakthrough, the one big idea, is contrary to what we found: To build a truly great company, it's decision upon decision, action upon action, day upon day, month upon month. . . . It's cumulative momentum and no one decision defines a great company." Collins cites Walt Disney in theme 48 PART 1 | UndeRsTAndINg MARkeTINg MANAgeMeNT So ur ce : H an do ut /M C T/ N ew sc om Film studios are finding new ways to expand their movie franchises, as with Warner Bros. and Batman. Program formulation Strategy formulation Goal formulation Business mission External environment (opportunity & threat analysis) Internal environment (strengths/ weaknesses analysis) SWOT analysis Implementation Feedback and control | Fig. 2.4 | The Business Unit Strategic-Planning Process MOvie industry Netflix and the Internet started a decline in DVD sales that began in 2007 and has not stopped. The emergence of Redbox kiosks renting movies for $1 a day added yet another threat to the movie business and DVD sales. Film studios clearly need to prepare for the day when films are primarily sold not through physical distribution but through satellite and cable companies' video-on-demand services. Although studios make 70 percent on a typical $4.99 cable viewing versus 30 percent on the sale of a DVD, sales of DVDs still generate 70 percent of a film's profits. To increase electronic distribution without destroying their DVD business, studios are experimenting with new approaches. Some, such as Warner Bros., are releasing a DVD at the same time as online and cable versions of a movie. Disney cross-promotes its parent-friendly films at its theme parks, on its TV channels, and in its stores. Warner has entered the video game business (such as with Dark Knight Batman) in hopes of generating additional revenue on its movie characters. Warner Interactive typically spends $30 million to $40 million to make its games and generated close to $1 billion in sales in 2011. Film studios are considering all possible scenarios as they rethink their business model in a world where the DVD is no longer king. Business Unit Strategic Planning The business unit strategic-planning process consists of the steps shown in Figure 2.4. We examine each step in the sections that follow. developINg MARkeTINg sTRATegIes ANd PlANs | chapter 2 49 The busIness mIssIon Each business unit needs to define its specific mission within the broader company mission. Thus, a television- studio-lighting-equipment company might define its mission as "To target major television studios and become their vendor of choice for lighting technologies that represent the most advanced and reliable studio lighting arrangements." Notice this mission does not mention winning business from smaller television studios, offering the lowest price, or venturing into non-lighting products. swoT analYsIs The overall evaluation of a company's strengths, weaknesses, opportunities, and threats is called SWOT analysis. It's a way of monitoring the external and internal marketing environment. exTernal environMenT (opporTuniTy anD ThreaT) analysis A business unit must monitor key macroenvironment forces and significant microenvironment factors that affect its ability to earn profits. It should set up a marketing intelligence system to track trends and important developments and any related opportunities and threats. Good marketing is the art of finding, developing, and profiting from these opportunities.31 A market- ing opportunity is an area of buyer need and interest that a company has a high probability of profitably satisfying. There are three main sources of market opportunities.32 The first is to offer something that is in short supply. This requires little marketing talent, as the need is fairly obvious. The second is to supply an existing product or service in a new or superior way. How? The problem detection method asks consumers for their suggestions, the ideal method has them imagine an ideal version of the product or service, and the consumption chain method asks them to chart their steps in acquiring, using, and disposing of a product. This last method can often lead to a totally new product or service, which is the third main source of market opportunities. Marketers need to be good at spotting opportunities. Consider the following: • A company may benefit from converging industry trends and introduce hybrid products or services new to the market. Cell phone manufacturers have released phones with digital photo and video capabilities, Global Positioning Systems (GPS), and so on. • A company may make a buying process more convenient or efficient. Mobil introduced Speed Pass, one of the first widely deployed RFID (radio-frequency identification) payment systems, to allow consumers to quickly and easily pay for gas at the pump. • A company can meet the need for more information and advice. Angie's List connects individuals with local home improvement and other services that have been reviewed by others. • A company can customize a product or service. Timberland allows customers to choose colors for different parts of their boots, add initials or numbers, and select different stitching and embroidery. • A company can introduce a new capability. Consumers can create and edit digital "iMovies" with the iMac and upload them to an Apple Web server or Web site such as YouTube to share with friends around the world. • A company may be able to deliver a product or service faster. FedEx discovered a way to deliver mail and packages much more quickly than the U.S. Postal Service. • A company may be able to offer a product at a much lower price. Pharmaceutical firms have created generic versions of brand-name drugs, and mail-order drug companies often sell for less. To evaluate opportunities, companies can use market opportunity analysis (MOA) to ask questions like: 1. Can we articulate the benefits convincingly to a defined target market(s)? 2. Can we locate the target market(s) and reach them with cost-effective media and trade channels? 3. Does our company possess or have access to the critical capabilities and resources we need to deliver the customer benefits? 4. Can we deliver the benefits better than any actual or potential competitors? 5. Will the financial rate of return meet or exceed our required threshold for investment? In the opportunity matrix in Figure 2.5(a), the best marketing opportunities facing the TV-lighting-equipment company appear in the upper-left cell (#1). The opportunities in the lower-right cell (#4) are too minor to consider. The opportunities in the upper-right cell (#2) and the lower-left cell (#3) are worth monitoring in the event that any improve in attractiveness and potential. 50 PART 1 | UndeRsTAndINg MARkeTINg MANAgeMeNT An environmental threat is a challenge posed by an unfavorable trend or development that, in the absence of defensive marketing action, would lead to lower sales or profit. Figure 2.5(b) illustrates the threat matrix facing the TV-lighting-equipment company. The threats in the upper-left cell are major because they have a high probability of occurrence and can seriously hurt the company. To deal with them, the company needs contingency plans. The threats in the lower-right cell are minor and can be ignored. The firm will want to carefully monitor threats in the upper-right and lower-left cells in the event they grow more likely or serious. inTernal environMenT (sTrengThs anD weaknesses) analysis It's one thing to find attractive opportunities and another to be able to take advantage of them. Each business needs to evaluate its internal strengths and weaknesses. Consider Loan Bright.33 LOan Bright At the Web site of Loan Bright, an online mortgage company, potential homebuyers can get a personalized list of lenders and available terms. At first, Loan Bright made its money by selling the homebuyer data to high-end mortgage lenders, including Wells Fargo Home Mortgage, Bank of America Mortgage, and Chase Home Mortgage. These firms turned the data into leads for their sales teams. But worrisome internal issues arose. For one thing, Loan Bright had to please every one of its big clients, yet each was becoming tougher to satisfy, eating up time and resources. The company's top managers gathered to analyze the market and Loan Bright's strengths and weak- nesses. They decided that instead of serving a few choice clients, they would serve many more individual loan officers who responded to the company's Google ads and only wanted to buy a few leads. The switch required revamping the way Loan Bright salespeople brought in new business, including using a one-page contract instead of the old 12-page contract and creating a separate customer service department. A SWOT-like analysis was instrumental in the development of the corporate strategy that drove Dell to years of success. • Dell's strength was selling more effectively and efficiently directly to consumers than IBM and Compaq, its hardware competitors at the time. • Dell's weakness, however, was that its brand was not as strong and it lacked a well-entrenched channel infra- structure and solid dealer relationships. High Success Probability At tr ac tiv en es s (a) Opportunity Matrix Low 1. 2. 3. 4. Company develops more powerful lighting system Company develops more efficient way to measure energy efficiency of any lighting system Company develops a method to teach lighting fundamentals to TV studio personnel 43 21High Low High Probability of Occurrence Se rio us ne ss (b) Threat Matrix Low 1. 2. 3. 4. Competitor develops superior lighting system Major prolonged economic depression Higher costs Legislation to reduce number of TV studio licenses43 21High Low | Fig. 2.5 | Opportunity and Threat Matrices developINg MARkeTINg sTRATegIes ANd PlANs | chapter 2 51 • Dell's opportunity was that the consumer market was becoming more sophisticated and customers increas- ingly knew exactly what they wanted. • Dell's threat was that it would fail to generate a big enough customer base in the face of strong competitors and demanding channel partners. With consumers desiring purchasing convenience and flexibility, however, the Internet offered a powerful direct marketing and selling option. Dell's business strategy combined direct sales, Internet marketing, mass customization, and just-in-time manufacturing to capitalize on the market opportunity it was offered. Businesses can evaluate their own strengths and weaknesses by using a form like the one shown in "Marketing Memo: Checklist for Evaluating Strengths/Weaknesses Analysis." Clearly, the business doesn't have to correct all its weaknesses, nor should it gloat about all its strengths. The big question is whether it should limit itself to those opportunities for which it possesses the required strengths or consider those that might require it to find or develop new strengths. Performance Importance Major Strength Minor Strength Neutral Minor Weakness Major Weakness High Med. Low Marketing 1. Company reputation 2. Market share 3. Customer satisfaction 4. Customer retention 5. Product quality 6. Service quality 7. Pricing effectiveness 8. Distribution effectiveness 9. Promotion effectiveness 10. Sales force effectiveness 11. Innovation effectiveness 12. Geographical coverage ___

_____ Finance 13. Cost or availability of capital 14. Cash flow 15. Financial stability _____ Manufacturing 16. Facilities 17. Economies of scale 18. Capacity 19. Able, dedicated workforce 20. Ability to produce on time 21. Technical manufacturing skill _____ Organization 22. Visionary, capable leadership 23. Dedicated employees 24. Entrepreneurial orientation 25. Flexible or responsive _____ Checklist for Evaluating Strengths/Weaknesses Analysismarketing memo 52 PART 1 | UndeRsTAnding MARkeTing MAnAgeMenT Goal formulaTIon Once the company has performed a SWOT analysis, it can proceed to goal formulation, developing specific goals for the planning period. Goals are objectives that are specific with respect to magnitude and time. Most business units pursue a mix of objectives, including profitability, sales growth, market share improvement, risk containment, innovation, and reputation. The business unit sets these objectives and then manages by objec- tives (MBO). For an MBO system to work, the unit's objectives must meet four criteria: 1. They must be arranged hierarchically, from most to least important. The business unit's key objective for the period may be to increase the rate of return on investment. Managers can increase profit by increasing revenue and reducing expenses. They can grow revenue, in turn, by increasing market share and prices. 2. Objectives should be quantitative whenever possible. The objective "to increase the return on investment (ROI)" is better stated as the goal "to increase ROI to 15 percent within two years." 3. Goals should be realistic. Goals should arise from an analysis of the business unit's opportunities and strengths, not from wishful thinking. 4. Objectives must be consistent. It's not possible to maximize sales and profits simultaneously. Other important trade-offs include short-term profit versus long-term growth, deep penetration of existing markets versus development of new markets, profit goals versus nonprofit goals, and high growth versus low risk. Each choice calls for a different marketing strategy.34 Many believe adopting the goal of strong market share growth may mean foregoing strong short-term profits. Volkswagen has 15 times the annual revenue of Porsche—but Porsche's profit margins are seven times bigger than Volkswagen's. Other successful companies such as Google, Microsoft, and Samsung have maximized profitability and growth. sTraTeGIc formulaTIon Goals indicate what a business unit wants to achieve; strategy is a game plan for getting there. Every business must design a strategy for achieving its goals, consisting of a marketing strategy and a compatible technology strategy and sourcing strategy. porTer's generiC sTraTegies Michael Porter has proposed three generic strategies that provide a good starting point for strategic thinking: overall cost leadership, differentiation, and focus.35 • Overall cost leadership. Firms work to achieve the lowest production and distribution costs so they can underprice competitors and win market share. They need less skill in marketing. The problem is that other firms will usually compete with still-lower costs and hurt the firm that rested its whole future on cost. • Differentiation. The business concentrates on achieving superior performance in an important cus- tomer benefit area valued by a large part of the market. The firm seeking quality leadership, for example, must make products with the best components, put them together expertly, inspect them carefully, and effectively communicate their quality. • Focus. The business focuses on one or more narrow market segments, gets to know them intimately, and pursues either cost leadership or differentiation within the target segment. The online air travel industry has provided a good example of these three strategies: Travelocity has pursued a differentiation strategy by offering the most comprehensive range of services to the traveler; Lowestfare has pur- sued a lowest-cost strategy for the leisure travel market; and Last Minute has pursued a niche strategy by focus- ing on travelers who have the flexibility to travel on very short notice. Some companies use a hybrid approach. According to Porter, competing firms directing the same strategy to the same target market constitute a strate- gic group.36 The firm that carries out the strategy best will make the most profits. Circuit City went out of business because it did not stand out in the consumer electronics industry as lowest in cost, highest in perceived value, or best in serving some market segment. Porter draws a distinction between operational effectiveness and strategy. Competitors can quickly copy the operationally effective company using benchmarking and other tools, thus diminishing the advantage of operational effectiveness. Strategy, on the other hand, is "the creation of a unique and valuable position involving a different set of activities." A company can claim it has a strategy when it "performs different activities from rivals or performs similar activities in different ways." sTraTegiC allianCes Even giant companies—AT&T, Philips, and Starbucks—often cannot achieve leadership, either nationally or globally, without forming alliances with domestic or multinational companies that complement or leverage their capabilities and resources. develoPing MARkeTing sTRATegies And PlAns | chapter 2 53 Just doing business in another country may require the firm to license its product, form a joint venture with a local firm, or buy from local suppliers to meet "domestic content" requirements. Many firms have developed global strategic networks, and victory is going to those who build the better one. The Star Alliance brings together 27 airlines, including Lufthansa, United Airlines, Singapore Airlines, Air New Zealand, and South Africa Airways, in a huge global partnership that allows travelers in 193 countries to make nearly seamless connections to hundreds of destinations.37 Many strategic partnerships take the form of marketing alliances. These fall into four major categories. 1. Product or service alliances—One company licenses another to produce its product, or two companies jointly market their complementary products or a new product. The credit card industry is a complicated combination of cards jointly marketed by banks such as Bank of America, credit card companies such as Visa, and affinity companies such as Alaska Airlines. 2. Promotional alliances—One company agrees to carry a promotion for another company's product or service. In 2011, VIBE urban music and lifestyle magazine announced a promotional alliance with Hoop It Up, the world's largest participatory 3-on-3 basketball tournament program, with competitions in 35 cities. The multi-platform partnership included VIBE digital, VIBE Cityguide App, editorial coverage and promotion in VIBE, and a highly integrated social media campaign with a strong VIBE branded presence at all Hoop It Up live events nationwide.38 3. Logistics alliances—One company offers logistical services for another company's product. Warner Music Group and Sub Pop Records created the Alternative Distribution Alliance (ADA) in 1993 as a joint venture to distribute and manufacture records owned by independent labels. ADA is the leading "indie" distribution company in the United States for both physical and digital product. 4. Pricing collaborations—One or more companies join in a special pricing collaboration. Hotel and rental car companies often offer mutual price discounts. Companies need to give creative thought to finding partners that might complement their strengths and offset their weaknesses. Well-managed alliances allow companies to obtain a greater sales impact at lower cost. To keep their strategic alliances thriving, corporations have begun to develop organizational structures to support them, and many have come to view the ability to form and manage partnerships as core skills called partner relationship management (PRM). After years of growth through acquisition and buying interests in two dozen companies, the world's biggest wireless telecom operator, Vodafone, has looked outside for partners to help it leverage its existing assets.39 VOdafOne To spur more innovation and growth, London-based Vodafone has embraced open source software and open platforms that allow it to tap into the creativity and skills of others. With its Web portal called Betavine, amateur or professional software developers can create and test their latest mobile applications on any network, not just Vodafone's. While these developers retain intellectual property rights, Vodafone gains early exposure to the latest trends and ensures that innovations are compatible with its network. Some of the new apps include real-time train arrivals and departures, movie show times, and an Amazon.com widget with personalized details. With 404 million customers in 30 countries, the £46 billion company hasn't had trouble finding help from interested corporate partners either. Dell has collaborated with Vodafone to design laptops and low-priced netbooks with built-in wireless broadband access over Vodafone's networks. Rather than just form a partnership, a firm may choose to just acquire another firm. Kraft acquired Cadbury in 2010, in part due to Cadbury's deep roots in emerging markets like India where Kraft did not have a strong pres- ence. The acquisition also permitted Kraft to do a restructuring and divide its businesses into two companies: one focused on grocery products, the other on snack foods.40 ProGram formulaTIon anD ImPlemenTaTIon Even a great marketing strategy can be sabotaged by poor implementation. If the unit has decided to attain technological leadership, it must strengthen its R&D department, gather technological intelligence, develop leading-edge products, train its technical sales force, and communicate its technological leadership. Once they have formulated marketing programs, marketers must estimate their costs. Is participating in a particular trade show worth it? Will hiring another salesperson contribute to the bottom line? Activity-based cost accounting (ABC) —described in greater detail in Chapter 5— can help determine whether each marketing program is likely to produce sufficient results to justify its cost.41 54 PART 1 | UndeRsTAnding MARkeTing MAnAgeMenT Today's businesses recognize that unless they nurture other stakeholders—customers, employees, suppliers, distributors—they may never earn sufficient profits for the stockholders. A company might aim to delight its customers, perform well for its employees, and deliver a threshold level of satisfaction to its suppliers. It must not violate any stakeholder group's sense of fairness about the treat- ment it is receiving relative to the others.42 A dynamic relationship connects the stakeholder groups. A smart company creates a high level of employee satisfac- tion, which leads to higher effort, which leads to higher-quality products and services, which creates higher customer satisfaction, which leads to more repeat business, which leads to higher growth and profits, which leads to high stockholder satisfaction, which leads to more investment, and so on. This virtuous circle spells profits and growth. According to McKinsey & Company, strategy is only one of seven elements—all of which start with the letter s—in successful business practice.43 The first three—strategy, structure, and systems—are considered the "hardware" of success. The next four—style, skills, staff, and shared values—are the "software." The first "soft" element, style, means company employees share a common way of thinking and behaving. The second, skills, means employees have the skills needed to carry out the company's strategy. Staffing means the company has hired able people, trained them well, and assigned them to the right jobs. The fourth element, shared values, means employees share the same guiding values. When these elements are present, companies are usually more suc- cessful at strategy implementation.44 So ur ce : © A nd re w H as so n/ A la m y Kraft acquired Cadbury in part because of its knowledge of and presence in emerging markets. clean energy, health and nutrition, consumerism in the emerging world, and infrastructure. R&D investments in those four areas totaled $9 billion over a five-year period. • The runaway success of Amazon's Kindle, Apple's iPad, and other tablet products have turned the book world upside down. Bookstores, libraries, and publishers are all recognizing that the sale and delivery of a book are now just a download away. Libraries are lending e-readers in addition to "stocking" e-books for lending. When the due date arrives, the book just disappears! • The textbook market is being transformed by new entries such as Flat World Knowledge offering customizable, discount texts. Free e-textbooks at some schools allow users to scroll page by page, highlight and annotate, and share comments with classmates and instructors. Some students buy a new or used paper version of the e-textbook anyway. As one notes, "When I'm using the e-textbook, there's the temptation to check e-mail, check my grades, or check Facebook." Sources: Erik Rhey, "A GPS Maker Shifts Gears," Fortune, March 19, 2012; Geoff Colvin, "Dow's New Direction," Fortune, March 19, 2012; Ben Bradford, "Libraries Grapple with the Downside of E-books," www.npr.org, May 29, 2012; Sharon Tregaskis, "Buy the Book," Cornell Alumni Magazine, November–December 2012; "Great Digital Expectations," The Economist, September 10, 2011. marketing insight Businesses Charting a New Direction Continued prosperity or even survival may depend on how quickly and effectively a firm is able to chart a new direction. Consider these examples. • With consumers increasingly using smart phones for directions and maps, Garmin, the biggest maker of GPS devices, found sales declining rapidly. Its solution was to concentrate on partnering with automakers to embed GPS systems in dashboard "command centers." Its selling points are that most smart phones are not optimized for use when driving and are thus dangerous to use behind the wheel. Hedging its bets, Garmin also has its own app available for smart phones. • When Dow Chemical found its commodity chemical strategy was no longer profitable, new CEO Andrew Livirie decided to shift the company's focus to unique, innovative high-margin products like solar shingles. Dow's intent was to capitalize on four main trends: develoPing MARkeTing sTRATegies And PlAns | chapter 2 55 feeDback anD conTrol A company's strategic fit with the environment will inevitably erode because the market environment changes faster than the company's seven Ss. Thus, a company might remain efficient yet lose effectiveness. Peter Drucker pointed out that it is more important to "do the right thing"—to be effective—than "to do things right"—to be efficient. The most successful companies, however, excel at both. Once an organization fails to respond to a changed environment, it becomes increasingly hard to recapture its lost position. Organizations, especially large ones, are subject to inertia. It's difficult to change one part without adjusting everything else. Yet organizations can be changed through strong leadership, preferably in advance of a crisis. The key to organizational health is willingness to examine the changing environment and adopt new goals and behaviors. "Marketing Insight: Businesses Charting a New Direction" describes how some different companies and industries are adjusting to the new marketing realities that have changed their fortunes. The Nature and Contents of a Marketing Plan Working within the plans set by the levels above them, marketing managers come up with a marketing plan for individual products, lines, brands, channels, or customer groups. A marketing plan is a written docu- ment that summarizes what the marketer has learned about the marketplace and indicates how the firm plans to reach its marketing objectives.45 It contains tactical guidelines for the marketing programs and financial allocations over the planning period.46 A marketing plan is one of the most important outputs of the marketing process. It provides direction and focus for a brand, product, or company. It informs and motivates key constituents inside and outside an organization about its marketing goals and how these can be achieved. Nonprofit organizations use marketing plans to guide their fund-raising and outreach efforts, and government agencies use them to build public awareness of nutrition and stimulate tourism. More limited in scope than a business plan, the marketing plan documents how the organization will achieve its strategic objectives through specific marketing strategies and tactics, with the customer as the starting point. It is also linked to the plans of other departments. Suppose a marketing plan calls for selling 200,000 units annually. The production department must gear up to make that many units, finance must arrange funding to cover the expenses, human resources must be ready to hire and train staff, and so on. Without the appropriate level of orga- nizational support and resources, no marketing plan can succeed. The most frequently cited shortcomings of current marketing plans, according to marketing executives, are lack of realism, insufficient competitive analysis, and a short-run focus. (See "Marketing Memo: Marketing Plan Criteria" for questions to ask in developing marketing plans.) Here are some questions to ask in evaluating a marketing plan. 1. Is the plan simple and succinct? Is it easy to understand and act on? Does it communicate its content clearly and practically? Is it not unnecessarily long? 2. Is the plan complete? Does it include all the necessary elements? Does it have the right breadth and depth? Achieving the right balance between completeness and lots of detail and simplicity and clear focus is often the key to a well-constructed marketing plan. 3. Is the plan specific? Are its objectives concrete and measurable? Does it provide a clear course of action? Does it include specific activities, each with specific dates of completion, specific persons responsible, and specific budgets? 4. Is the plan realistic? Are the sales goals, expense budgets, and milestone dates realistic? Has a frank and honest self-critique been conducted to raise possible concerns and objections? Sources: Adapted from Tim Berry and Doug Wilson, On Target: The Book on Marketing Plans, 2nd ed. (Eugene, OR: Palo Alto Software, 2000); Alexander Chernev, The Marketing Plan Handbook (Chicago, IL: Cerebellum Press, 2011); authors' experiences. Marketing Plan Criteriamarketing memo 56 PART 1 | UndeRsTAnding MARkeTing MAnAgeMenT Most marketing plans cover one year in anywhere from 5 to 50 pages. Smaller businesses may create shorter or less formal marketing plans; corporations generally require highly structured documents. Every part of the plan must be described in considerable detail. Some companies post their marketing plan on an internal Web site so everyone can consult it and collaborate on changes. A marketing plan usually contains the following sections. • Executive summary and table of contents. • Situation analysis. This section presents relevant background data on sales, costs, the market, competi- tors, and the macroenvironment. How do we define the market, how big is it, and how fast is it growing? What are the relevant trends and critical issues? Firms will use all this information to carry out a SWOT analysis. • Marketing strategy. Here the marketing manager defines the mission, marketing and financial objectives, and needs the market offering is intended to satisfy as well as its competitive positioning. All this requires inputs from other areas, such as purchasing, manufacturing, sales, finance, and human resources. • Marketing tactics. Here the marketing manager outlines the marketing activities that will be undertaken to execute the marketing strategy. • The product or service offering section describes the key attributes and benefits that will appeal to target customers. • The pricing section specifies the general price range and how it might vary across different types of cus- tomers or channels, including any incentive or discount plans. • The channel section outlines the different forms of distribution, such as direct or indirect. • The communications section usually offers high-level guidance about the general message and media strategy. Firms will often develop a separate communication plan to provide the detail necessary for agencies and other media partners to effectively design the communication program. • Financial projections. Financial projections include a sales forecast, an expense forecast, and a break-even analysis. On the revenue side is forecasted sales volume by month and product category, and on the expense side the expected costs of marketing, broken down into finer categories. The break-even analysis estimates how many units the firm must sell monthly (or how many years it will take) to offset its monthly fixed costs and average per-unit variable costs. A more complex method of estimating profit is risk analysis. Here we obtain three estimates (optimistic, pessimistic, and most likely) for each uncertain variable affecting profitability, under an assumed marketing environment and marketing strategy for the planning period. The computer simulates possible outcomes and computes a distribution showing the range of possible rates of returns and their probabilities. • Implementation controls. The last section outlines the controls for monitoring and adjusting implementa- tion of the plan. Typically, it spells out the goals and budget for each month or quarter so management can review each period's results and take corrective action as needed. The role of research Marketers need up-to-date information about the environment, the competition, and the selected market seg- ments. Often, analysis of internal data is the starting point for assessing the current marketing situation, supple- mented by marketing intelligence and research investigating the overall market, the competition, key issues, threats, and opportunities. As the plan is put into effect, marketers use research to measure progress toward objectives and identify areas for improvement. Finally, marketing research helps marketers learn more about their customers' requirements, expectations, perceptions, satisfaction, and loyalty. Thus, the marketing plan should outline what marketing research will be conducted and when, as well as how the findings will be applied. The role of relaTIonshIPs Although the marketing plan shows how the company will establish and maintain profitable customer relation- ships, it also affects both internal and external relationships. First, it influences how marketing staff work with develoPing MARkeTing sTRATegies And PlAns | chapter 2 57 each other and with other departments to deliver value and satisfy customers. Second, it affects how the com- pany works with suppliers, distributors, and partners to achieve the plan's objectives. Third, it influences the company's dealings with other stakeholders, including government regulators, the media, and the community at large. from markeTInG Plan To markeTInG acTIon Marketers start planning well in advance of the implementation date to allow time for marketing research, analy- sis, management review, and coordination between departments. As each action program begins, they monitor ongoing results, investigate any deviation from plans, and take corrective steps as needed. Some prepare contin- gency plans; marketers must be ready to update and adapt marketing plans at any time. The marketing plan typically outlines budgets, schedules, and marketing metrics for monitoring and evaluat- ing results. With budgets, marketers can compare planned and actual expenditures for a given period. Schedules show when tasks were supposed to be completed and when they actually were. Marketing metrics track actual outcomes of marketing programs to see whether the company is moving forward toward its objectives, as we'll discuss in Chapter 4. Summary 1. The value delivery process includes choosing (or iden- tifying), providing (or delivering), and communicating superior value. The value chain is a tool for identifying key activities that create value and costs in a specific business. 2. Strong companies develop superior capabilities in man- aging core business processes such as new-product realization, inventory management, and customer acqui- sition and retention. In today's marketing environment, managing these core processes effectively means cre- ating a marketing network in which the company works closely with all parties in the production and distribution chain, from suppliers of raw materials to retail distribu- tors. Companies no longer compete—marketing net- works do. 3. Market-oriented strategic planning is the managerial pro- cess of developing and maintaining a viable fit between the organization's objectives, skills, and resources and its changing market opportunities. The aim of strate- gic planning is to shape the company's businesses and products so they yield target profits and growth. Strategic planning takes place at four levels: corporate, division, business unit, and product. 4. The corporate strategy establishes the framework with- in which the divisions and business units prepare their strategic plans. Setting a corporate strategy means defining the corporate mission, establishing strategic business units (SBUs), assigning resources to each, and assessing growth opportunities. 5. Marketers should define a business or business unit as a customer-satisfying process. Taking this view can reveal additional growth opportunities. 6. Strategic planning for individual businesses includes defining the business mission, analyzing external opportunities and threats, analyzing internal strengths and weaknesses, formulating goals, formulating strategy, formulating supporting programs, implementing the pro- grams, and gathering feedback and exercising control. 7. Each product level within a business unit must develop a marketing plan for achieving its goals. The marketing plan is one of the most important outputs of the market- ing process. MyMarketingLab go to mymktlab.com to complete the problems marked with this icon as well as for additional auto-graded and assisted-graded writing questions. 58 PART 1 | UndeRsTAnding MARkeTing MAnAgeMenT Applications Marketing Debate What Good Is a Mission Statement? Mission statements are often the product of much delib- eration and discussion. At the same time, critics claim they sometimes lack "teeth" and specificity or do not vary much from firm to firm and make the same empty promises. Take a position: Mission statements are critical to a successful marketing organization versus Mission state- ments rarely provide useful marketing value. Marketing Discussion Marketing Planning Consider Porter's value chain and the holistic market- ing orientation model. What implications do they have for marketing planning? How would you structure a marketing plan to incorporate some of their concepts? The company survived the Internet bust but reor- ganized in 2001 into 11 new technology groups and a marketing organization, which planned to communicate the company's product line and competitive advantages better than it had in the past. In 2003, Cisco introduced its largest marketing campaign to date, including a new slogan, "This Is the Power of the Network. Now." The international campaign targeted corporate executives and highlighted Cisco's critical role in a complicated, technologi- cal system by using a soft-sell approach. Television com- mercials explained how Cisco's systems change people's lives around the world, and an eight-page print ad spread didn't mention Cisco's name until the third page. Marilyn Mersereau, Cisco's vice president of corporate marketing at the time, explained, "Clever advertising involves the reader in something that's thought-provoking and provocative and doesn't slam the brand name into you from the first page." Cisco entered the consumer segment with the acquisition of Linksys, a home and small-office network gear maker. Within a year, Cisco offered several home entertainment solutions, including wireless capabilities for music, printing, and video. The transition into the con- sumer segment triggered a rebranding campaign in 2006, aimed at increasing awareness among consumers and lifting the overall value of Cisco's brand. "The Human Network" campaign tried to reposi- tion the technology giant as more than just a supplier of switches and routers by communicating its role in connecting people through technology. The campaign evolved into "Built for the Human Network" and targeted everyone from consumers to IT professionals. As a result, Cisco developed a new marketing strategy that show- cased its brand as fun and digestible, using interactive games, videos, and virtual events. Cisco's partnership with sports and entertainment venues created the perfect opportunity to exhibit the way its technologies connected people to their pas- sions. Cisco Connected Sports turned sports stadiums Marketing Excellence >> Cisco Cisco Systems is the worldwide leading supplier of net- working equipment for the Internet. The company sells hardware (routers and switches), software, and services that make most of the Internet work. Cisco was founded in 1984 by a husband-and-wife team who worked in the computer operations department at Stanford University. They named the company cisco—with a lowercase c, short for San Francisco, and developed a logo that resembled the Golden Gate Bridge, which they frequently traveled. Cisco went public in 1990, and the two founders left the company shortly thereafter. Over the next decade, the company grew exponentially, led by new-product launches such as patented routers, switches, platforms, and modems, which significantly contributed to the back- bone of the Internet. Cisco opened its first international offices in London and France in 1991 and has expanded to more than 165 countries. During the 1990s, Cisco ac- quired and successfully integrated 49 companies into its core business, growing its market capitalization faster than that of any company in history—from $1 billion in 1991 to $300 billion in 1999. In March 2000, Cisco became the most valuable company in the world, with market capital- ization peaking at $582 billion, or $82 per share. By the end of the 20th century, the company was extremely successful, but brand awareness was low. Many consumers and investors knew Cisco for its stock price, but few outside the industry knew what it did. Cisco developed partnerships with Sony, Matsushita, and US West to co- brand its modems with the Cisco logo in hopes of building name recognition and brand value. In addition, it launched its first television spots as part of a campaign titled "Are You Ready?" In the ads, children and adults from around the world delivered facts about the power of the Internet and challenged viewers to ponder, "Are you ready?" develoPing MARkeTing sTRATegies And PlAns | chapter 2 59 into digitally connected interactive venues, "the ultimate fan experience." Fans could meet the players virtually through a videoconferencing system, while digital dis- plays throughout the stadium allowed them to pull up scores from other games, order food, and view local traffic. These flexible platforms could also work with business conferences and music concerts. Cisco's ultimate goal is to increase overall Internet traffic, ultimately driving demand for its wide range of products. The company has recently expanded into con- sumer electronics, business collaboration software, and computer servers. Revenues topped $47 billion in 2014, and its market cap exceeded $118 billion. Its Web site boasts, "We help the most innovative companies in the world do things they never could before." Questions 1. How is building a brand in a business-to-business con- text different from doing so in the consumer market? 2. Is Cisco's plan to reach out to consumers a viable one? Why or why not? Sources: Marguerite Reardon, "Cisco Spends Millions on Becoming Household Name," CNET, October 5, 2006; Michelle Kessler, "Tech Giants Build Bridge to Consumers," USA Today, March 13, 2006; Marla Matzer, "Cisco Faces the Masses," Los Angeles Times, August 20, 1998; David R. Baker, "New Ad Campaign for Cisco," San Francisco Chronicle, February 18, 2003; Bobby White, "Expanding into Consumer Electronics, Cisco Aims to Jazz Up Its Stodgy Image," Wall Street Journal, September 6, 2006, p. B1; Burt Helm, "Best Global Brands," BusinessWeek, September 18, 2008; Ashlee Vance, "Cisco Buys Norwegian Firm for $3 Billion," New York Times, October 1, 2009; Jennifer Leggio, "10 Fortune 500 Companies Doing Social Media Right," ZDNet, September 28, 2009; Karen Bannan, "How Cisco Used Consumer-Based Marketing Strategies to Reach B2B Clients," BtoB Marketing, July 20, 2010; Cisco.com. As the PC industry slowed in the mid-2000s, Intel sought opportunities in new growth areas such as wire- less, home entertainment, and mobile devices. The com- pany launched a handful of new platforms: Centrino, which featured wireless capabilities, Viiv (rhymes with "five") aimed at home entertainment enthusiasts, and Centrino Duo mobile. Intel created a $2 billion global marketing campaign to help reposition itself from a brainy microprocessor company to a "warm and fuzzy com- pany" that offered solutions for consumers as well. With a new logo, its new slogan "Leap Ahead" replaced the familiar "Intel Inside" campaign. In 2008, reacting to the new wave of mobile Internet devices and lightweight netbooks, Intel launched the Atom, its smallest processor to date, about the size of a grain of rice. Also that year, Intel introduced its most advanced microprocessor to date, the Intel Core i7, which served the increased need for video, 3-D gam- ing, and advanced computer activities. Both processors were instant hits. Intel sold more than 20 million Atom processors in its first year alone and 28 million in its sec- ond year. Intel's corresponding campaign aimed to improve the company's brand awareness among consumers and was titled "Sponsors of Tomorrow." Commercials highlighted the company's role in changing the future of technol- ogy and took a humorous tone. In one, a middle-aged man wearing his company ID tag strutted through the cafeteria as fellow employees screamed, groped, and begged for his autograph. The ad explained, "Ajay Bhatt, co-inventor of the USB. Our superheroes aren't like your superheroes." As the post-PC era dawned, Intel, known for its relationship with the PC, found itself refocusing and Marketing Excellence >> Intel Intel makes the microprocessors found in most of the world's personal computers, tablets, and smart phones. It is one of the most valuable brands in the world, with rev- enues exceeding $54 billion. In the early days, however, Intel microprocessors were known simply by their engi- neering numbers, such as "80386" or "80486." Because numbers can't be trademarked, competitors came out with their own numbered chips, and Intel had no way to distinguish itself. Nor could consumers see Intel's products, buried deep inside their PCs. Thus, Intel had a hard time convincing consumers to pay more for its high- performance products. To correct this situation, Intel created the quintessen- tial ingredient-branding marketing campaign. First, it chose the name Pentium for its latest microprocessor and trade- marked it. Next, it launched the "Intel Inside" campaign to build brand awareness of its family of microprocessors. This campaign helped move the Intel brand name outside the PC and into the minds of consumers. To secure crucial support from the computer manufacturers who used its processors, Intel gave them significant rebates when they included its logo in their ads or placed "Intel Inside" stick- ers on the outside of their PCs and laptops. Intel created several memorable marketing cam- paigns in the late 1990s, making it a recognizable ingredi- ent brand name. The "Bunny People" series featured Intel technicians dressed in brightly colored contamination suits as they danced to disco music inside a processor facility. Intel also used the famous Blue Man Group in its commercials for Pentium III and Pentium IV. 60 PART 1 | UndeRsTAnding MARkeTing MAnAgeMenT taking risky steps to remain a technological leader. In 2011, it acquired two major companies, McAfee and Infineon Technologies' Wireless Solutions business, expanding its capabilities. That same year, Intel made a strategic shift in its product line and introduced the Ultrabook system, a new category of thin and secure mobile devices that combined features of tablets and netbooks. The company launched its biggest market- ing campaign in more than a decade—"A New Era of Computing"—to communicate its evolution into the cat- egory of tablets and smart phones. Kevin Sellers, vice president, Sales and Marketing Group, explained, "This is not a campaign where we're talking about the micro- processor or Intel the company. Instead, we're giving a cinematic and epic feel to how Intel-inspired Ultrabook systems are ushering in a new era of computing and making everything else seem like ancient history." As Intel expands into mobile devices, its influence on the future of technology and its brand value will grow. The combination of effective, consistent marketing along with innovative technological launches have made its brand one of the most valuable in the world, exceeding $34 billion. Questions 1. Discuss how Intel changed ingredient-marketing his- tory. What did it do so well in those initial marketing campaigns? 2. Evaluate Intel's more recent marketing efforts as the industry moves out of the PC era. What are Intel's greatest risks and strengths during this changing time? Sources: Cliff Edwards, "Intel Everywhere?" BusinessWeek, March 8, 2004, pp. 56–62; Scott Van Camp, "ReadMe.1st," Brandweek, February 23, 2004, p. 17; "How to Become a Superbrand," Marketing, January 8, 2004, p. 15; Roger Slavens, "Pam Pollace, VP-Director, Corporate Marketing Group, Intel Corp," BtoB, December 8, 2003, p. 19; Kenneth Hein, "Study: New Brand Names Not Making Their Mark," Brandweek, December 8, 2003, p. 12; Heather Clancy, "Intel Thinking outside the Box," Computer Reseller News, November 24, 2003, p. 14; Cynthia L. Webb, "A Chip Off the Old Recovery?" Washingtonpost.com, October 15, 2003; "Intel Launches Second Phase of Centrino Ads," Technology Advertising & Branding Report, October 6, 2003; David Kirkpatrick, "At Intel, Speed Isn't Everything," Fortune, February 9, 2004, p. 34; Don Clark. "Intel to Overhaul Marketing in Bid to Go Beyond PCs," Wall Street Journal, December 30, 2005; Stephanie Clifford, "Tech Company's Campaign to Burnish Its Brand," New York Times, May 6, 2009, p. B7; Tim Bajarin, "Intel Makes Moves in Mobility," PC Magazine, October 5, 2009; "Intel Ushers in 'A New Era of Computing' with Ultrabook Campaign," Intel press release, April 4, 2012; Interbrand's Best Global Brands 2014. develoPing MARkeTing sTRATegies And PlAns | chapter 2 61 sample marketing Plan Pegasus sports International 1.0 Executive Summary Pegasus Sports International is a start-up aftermarket inline skat- ing accessory manufacturer. Inline skates have four or five wheels arranged in a single line and are often called Rollerblades by the general public after one of the early pioneers in the category. In addition to the aftermarket products, Pegasus is developing SkateTours, a service that takes clients out, in conjunction with a local skate shop, and provides them with an afternoon of skating using inline skates and some of Pegasus's other accessories such as SkateSails. The aftermarket skate accessory market has been largely ignored. Although there are several major manufacturers of the skates themselves, the accessory market has not been addressed. This provides Pegasus with an extraordinary opportu- nity for market growth. Skating is a booming sport. Currently, most of the skating is recreational. There are, however, a growing num- ber of skating competitions, including team-oriented competitions such as skate hockey as well as individual competitions such as speed skate racing. Pegasus will work to grow these markets and develop the skate transportation market, a more utilitarian use of skating. Pegasus has outlined a go-to-market marketing program that combines highly relevant products and services with an evolving direct-to-consumer distribution strategy to tap into customer pas- sions and loyalty. 2.0 Situation Analysis Pegasus is entering its first year of operation. Its products have been well received, and marketing will be key to the develop- ment of brand and product awareness as well as the growth of the customer base. Pegasus International offers several different aftermarket skating accessories, serving the growing inline skating industry. 2.1 Market Summary Pegasus possesses good information about the market and knows a great deal about the common attributes of the most prized customer. This information will be leveraged to better understand who is served, what their specific needs are, and how Pegasus can better communicate with them. Target Markets ■ Recreational ■ Fitness ■ Speed ■ Hockey ■ Extreme 2.1.1 Market Demographics The profile for the typical Pegasus customer consists of the follow- ing geographic, demographic, and behavior factors: Geographics ■ Pegasus has no set geographic target area. By leverag- ing the expansive reach of the Internet and multiple delivery services, Pegasus can serve both domestic and international customers. ■ The total targeted population is 31 million users. Demographics ■ There is an almost equal ratio between male and female users. ■ Ages 13–46, with 48 percent clustering around ages 23–34. The recreational users tend to cover the widest age range, Table 2.4 Target Market Forecast Target Market Forecast Potential Customers Growth 2015 2016 2017 2018 2019 CAGR* Recreational 10% 19,142,500 21,056,750 23,162,425 25,478,668 28,026,535 10.00% Fitness 15% 6,820,000 7,843,000 9,019,450 10,372,368 11,928,223 15.00% Speed 10% 387,500 426,250 468,875 515,763 567,339 10.00% Hockey 6% 2,480,000 2,628,800 2,786,528 2,953,720 3,130,943 6.00% Extreme 4% 2,170,000 2,256,800 2,347,072 2,440,955 2,538,593 4.00% Total 10.48% 31,000,000 34,211,600 37,784,350 41,761,474 46,191,633 10.48% *Compound Annual Growth Rate 62 PART 1 | UndeRsTAnding MARkeTing MAnAgeMenT including young users through active adults. The fitness users tend to be ages 20–40. The speed users tend to be in their late 20s and early 30s. The hockey players are generally in their teens through their early 20s. The extreme segment is of similar age to the hockey players. ■ Of the users who are over 20, 65 percent have an undergrad- uate degree or substantial undergraduate coursework. ■ The adult users have a median personal income of $47,000. Behavior Factors ■ Users enjoy fitness activities not as a means for a healthy life but as intrinsically enjoyable activities in themselves. ■ Users spend money on gear, typically sports equipment. ■ Users have active lifestyles that include some sort of recre- ation at least two to three times a week. 2.1.2 Market Needs Pegasus is providing the skating community with a wide range of accessories for all variations of skating. The company seeks to fulfill the following benefits that are important to its customers: ■ Quality craftsmanship. The customers work hard for their money and do not enjoy spending it on disposable prod- ucts that work for only a year or two. ■ Well-thought-out designs. The skating market has not been addressed by well-thought-out products that serve skaters' needs. Pegasus's industry experience and personal dedication to the sport will provide it with the needed informa- tion to produce insightfully designed products. ■ Customer service. Exemplary service is required to build a sustainable business that has a loyal customer base. 2.1.3 Market Trends Pegasus will distinguish itself by marketing products not previ- ously available to skaters. The emphasis in the past has been to sell skates and very few replacement parts. The number of skaters is not restricted to any one single country, continent, or age group, so there is a world market. Pegasus has products for virtually every group of skaters. The fastest-growing segment of this sport is the fitness skater (Table 2.4). Therefore, the marketing is being directed toward this group. BladeBoots will enable users to enter establishments with- out having to remove their skates. BladeBoots will be aimed at the recreational skater, the largest segment. SkateAids, on the other hand, are great for everyone. The sport of skating will also grow through SkateSailing. This sport is primarily for the medium-to-advanced skater, and its growth potential is tremendous. The sails that Pega- sus has manufactured have been sold in Europe, following a pattern similar to windsurfing. Windsailing originated in Santa Monica but did not take off until it had already grown big in Europe. Another trend is group skating. More and more groups are getting together on skating excursions in cities all over the world. For example, San Francisco has night group skating that attracts hundreds of people. The market trends are showing continued growth in all directions of skating. 2.1.4 Market Growth With the price of skates going down due to competition by so many skate companies, the market has had steady growth throughout the world, although sales have slowed down in some markets. The growth statistics for 2015 were estimated to be about 31 million units. More and more people are discovering— and in many cases rediscovering—the health benefits and fun of skating. 2.2 SWOT Analysis The following SWOT analysis captures the key strengths and weaknesses within the company and describes the opportunities and threats facing Pegasus. 2.2.1 Strengths ■ In-depth industry experience and insight ■ Creative yet practical product designers ■ The use of a highly efficient, flexible business model utilizing direct customer sales and distribution 2.2.2 Weaknesses ■ The reliance on outside capital necessary to grow the business ■ A lack of retailers who can work face to face with the customer to generate brand and product awareness ■ The difficulty of developing brand awareness as a start-up company 2.2.3 Opportunities ■ Participation within a growing industry ■ Decreased product costs through economies of scale ■ The ability to leverage other industry participants' marketing efforts to help grow the general market 2.2.4 Threats ■ Future/potential competition from an already-established market participant ■ A continued slump in the economy that could have a nega- tive effect on people's spending of discretionary income on fitness/recreational products ■ The release of a study that calls into question the safety of skating or the inability to prevent major skating-induced traumas 2.3 Competition Pegasus Sports International is forming its own market. Although there are a few companies that do make sails and foils that a few skaters are using, Pegasus is the only brand that is truly designed for and by skaters. The few competitors' sails on the market are developing MARkeTing sTRATegies And PlAns | chapter 2 63 not designed for skating but for windsurfing or for skateboards. In the case of foils, storage and carrying are not practical. There are different indirect competitors who are manufacturers of the actual skates. After many years in the market, these companies have yet to become direct competitors by manufacturing acces- sories for the skates that they make. 2.4 Product Offering Pegasus Sports International now offers several products: ■ The first product that has been developed is BladeBoots, a cover for the wheels and frame of inline skates, which allow skaters to enter places that normally would not allow them in with skates on. BladeBoots come with a small pouch and belt that converts to a well-designed skate carrier. ■ The second product is SkateSails. These sails are specifically designed for use while skating. Feedback that Pegasus has received from skaters indicates skatesailing could become a very popular sport. Trademarking this product is currently in progress. ■ The third product, SkateAid, will be in production by the end of the year. Other ideas for products are under development but will not be disclosed until Pegasus can protect them through pending patent applications. 2.5 Keys to Success The keys to success are designing and producing products that meet market demand. In addition, Pegasus must ensure total cus- tomer satisfaction. If these keys to success are achieved, it will become a profitable, sustainable company. 2.6 Critical Issues As a start-up business, Pegasus is still in the early stages. The critical issues are for Pegasus to: ■ Establish itself as the premier skating accessory company. ■ Pursue controlled growth that dictates that payroll expenses will never exceed the revenue base. This will help protect against recessions. ■ Constantly monitor customer satisfaction, ensuring that the growth strategy will never compromise service and satisfac- tion levels. 3.0 Marketing Strategy The key to the marketing strategy is focusing on the speed, health and fitness, and recreational skaters. Pegasus can cover about 80 percent of the skating market because it pro- duces products geared toward each segment. Pegasus is able to address all of the different segments within the market because, although each segment is distinct in terms of its users and equipment, its products are useful to all of the different segments. 3.1 Mission Pegasus Sports International's mission is to provide the customer with the finest skating accessories available. "We exist to attract and maintain customers. With a strict adherence to this maxim, success will be ensured. Our services and products will exceed the expectations of the customers." 3.2 Marketing Objectives ■ Maintain positive, strong growth each quarter (notwithstand- ing seasonal sales patterns). ■ Achieve a steady increase in market penetration. ■ Decrease customer acquisition costs by 1.5 percent per quarter. 3.3 Financial Objectives ■ Increase the profit margin by 1 percent per quarter through efficiency and economy-of-scale gains. ■ Maintain a significant research and development budget (as a percentage relative to sales) to spur future product developments. ■ Achieve a double- to triple-digit growth rate for the first three years. 3.4 Target Markets With a projected world skating market of 31 million that is steadily growing (statistics released by the Sporting Goods Manufactur- ers Association), the niche has been created. Pegasus's aim is to expand this market by promoting SkateSailing, a new sport that is popular in both Santa Monica and Venice Beach in California. The breakdown of participation in skating is as follows: 1-percent speed (growing), 8 percent hockey (declining), 7 percent extreme/ aggressive (declining), 22 percent fitness (nearly 7 million—the fastest growing), and 61 percent recreational (first-timers). Pegasus' products are targeting the fitness and recreational groups because they are the fastest growing. These groups are gearing themselves toward health and fitness, and combined they can easily grow to 85 percent (or 26 million) of the market in the next five years. 3.5 Positioning Pegasus will position itself as the premier aftermarket skating accessory company. This positioning will be achieved by leverag- ing Pegasus's competitive edge: industry experience and passion. Pegasus is a skating company formed by skaters for skaters. Its management is able to use its vast experience and personal passion for the sport to develop innovative, useful accessories for a broad range of skaters. 4.0 Marketing Tactics The single objective of the marketing program is to position Pegasus as the premier skating accessory manufacturer, serv- ing the domestic market as well as the international market. The marketing program will seek to first create customer awareness concerning the offered products and services and then develop the customer base. Specifically, Pegasus's marketing program is composed of the following approaches to product, pricing, distri- bution, and communications. 64 PART 1 | UndeRsTAndIng MARkeTIng MAnAgeMenT 4.1 Product Several of Pegasus's currently developed products have pat- ents pending, and local market research indicates that there is great demand for these products. Pegasus will achieve fast, significant market penetration through a solid business model, long-range planning, and a strong management team that is able to execute this exciting opportunity. The three principals on the management team have more than 30 years of combined personal and industry experience. This extensive experience provides Pegasus with the empirical information as well as the passion to provide the skating market with much-needed after- market products. 4.2 Pricing This will be based on a per-product retail price. Because of the advantages of selling directly, higher margins can be achieved with premium pricing that will still appeal to customer segments. 4.3 Distribution Pegasus will sell its products initially through its Web site. In ad- dition to allowing for higher margins, this direct-to-the-consumer approach will allow Pegasus to maintain a close relationship with customers, which is essential for producing products that have a true market demand. By the end of the year, Pegasus also will have developed relationships with different skate shops and will begin to sell some of its products through retailers. 4.4 Communications The message that Pegasus will seek to communicate is that it offers the best-designed, most useful skating accessories. This message will be communicated through a variety of methods. The first will be the Pegasus Web site, which will provide a rich source of product information and offer consumers the opportunity to purchase. A lot of time and money will be invested in the site to provide the customer with the perception of total professionalism and utility for Pegasus's products and services. The second marketing method will be advertisements placed in numerous industry magazines. The skating industry is sup- ported by several different glossy magazines designed to pro- mote the industry as a whole. In addition, a number of smaller periodicals serve the smaller market segments within the skating industry. The last method of communication is the use of printed sales literature. The two previously mentioned marketing meth- ods will create demand for the sales literature, which will be sent out to customers. The cost of the sales literature will be fairly minimal because it will use the already-compiled information from the Web site. 4.5 Marketing Research Pegasus is blessed with the good fortune of being located in the center of the skating world: Venice, California. It will be able to leverage this opportune location by working with many of the dif- ferent skaters who live in the area. Pegasus was able to test all of its products not only with its principals, who are accomplished skaters, but also with the many other dedicated and "newbie" users located in Venice. The extensive product testing by a wide variety of users provided Pegasus with valuable product feedback and has led to several design improvements. 5.0 Financials This section will offer the financial overview of Pegasus related to marketing activities. Pegasus will address break-even analysis, sales forecasts, and expense forecast and indicate how these activities link to the marketing strategy. 5.1 Break-Even Analysis The break-even analysis (Table 2.5) indicates that $7,760 will be required in monthly sales revenue to reach the break-even point. 5.2 Sales Forecast Pegasus feels that the sales forecast figures are conservative. It will steadily increase sales as the advertising budget allows. Although the target market forecast (Table 2.4) listed all of the po- tential customers divided into separate groups, the sales forecast (Table 2.6) groups customers into two categories: recreational and competitive. Reducing the number of categories allows the reader to quickly discern information, making the chart more functional. Table 2.5 Break-Even Analysis Monthly Units Break-Even 62 Monthly Sales Break-Even $ 7,760 Assumptions: Average Per-Unit Revenue $125.62 Average Per-Unit Variable Cost $ 22.61 Estimated Monthly Fixed Cost $ 6,363 Table 2.6 Monthly Sales Sales 2015 2016 2017 Recreational $455,740 $598,877 $687,765 Competitive $ 72,918 $ 95,820 $110,042 Total Sales $528,658 $694,697 $797,807 Direct Cost of Sales 2015 2016 2017 Recreational $ 82,033 $107,798 $123,798 Competitive $ 13,125 $ 17,248 $ 19,808 Subtotal Cost of Sales $ 95,158 $125,046 $143,606 5.3 Expense Forecast The expense forecast will be used as a tool to keep the department on target and provide indicators when corrections/modifications are needed for the proper implementation of the marketing plan. developing MARkeTing sTRATegies And PlAns | chapter 2 65 6.0 Controls The purpose of Pegasus's marketing plan is to serve as a guide for the organization. The following areas will be monitored to gauge performance: ■ Revenue: monthly and annual ■ Expenses: monthly and annual Table 2.7 Milestones Plan Milestones Start Date End Date Budget Manager Department Marketing plan completion 1/1/15 2/1/15 $ 0 Stan Marketing Web site completion 1/1/15 3/15/15 $20,400 outside firm Marketing Advertising campaign #1 1/1/15 6/30/15 $ 3,500 Stan Marketing Advertising campaign #2 3/1/15 12/30/15 $ 4,550 Stan Marketing Development of the retail channel 1/1/15 11/30/15 $ 0 Stan Marketing Totals $28,450 Table 2.8 Marketing Expense Budget 2015 2016 2017 Web Site $ 25,000 $ 8,000 $ 10,000 Advertisements $ 8,500 $ 15,000 $ 20,000 Printed Material $ 1,725 $ 2,000 $ 3,000 Total Sales and Marketing Expenses $ 34,775 $ 25,000 $ 33,000 Percent of Sales 6.58% 3.60% 4.14% Contribution Margin $398,725 $544,652 $621,202 Contribution Margin/Sales 75.42% 78.40% 77.86% ■ Customer satisfaction ■ New-product development 6.1 Implementation The milestones identify the key marketing programs (Table 2.7). It is important to accomplish each one on time and on budget (Table 2.8). 6.2 Marketing Organization Stan Blade will be responsible for the marketing activities. 6.3 Contingency Planning Difficulties and Risks ■ Problems generating visibility, a function of being an Internet- based start-up organization ■ An entry into the market by an already-established market competitor Worst-Case Risks ■ Determining that the business cannot support itself on an ongoing basis ■ Having to liquidate equipment or intellectual capital to cover liabilities Source: Adapted from a sample plan provided by and copyrighted by Palo Alto Software, Inc. Find more complete sample marketing plans at www.mplans.com. Reprinted by permission of Palo Alto Software. 66 In This Chapter, We Will Address the Following Questions 1. What are the components of a modern marketing information system? (p. 67) 2. What are useful internal records for a marketing information system? (p. 69) 3. What makes up a marketing intelligence system? (p. 70) 4. What are some influential macroenvironment developments? (p. 72) 5. How can companies accurately measure and forecast demand? (p. 85) Campbell's designed a new line of flavorful ready-to-eat soups to appeal to a discerning Millennial consumer. Source: CAMPBELL'S GO Soup images courtesy of Campbell Soup Company. MyMarketingLab™ Improve Your Grade! Over 10 million students improved their results using the Pearson MyLabs. Visit mymktlab.com for simulations, tutorials, and end-of-chapter problems. Capturing Marketing InsightsPart 2 Chapter 3 Collecting Information and Forecasting Demand Chapter 4 Conducting Marketing Research 67 Virtually every industry has been touched by dramatic shifts in the economic, sociocultural, natural, technological, and political-legal environments. In this chapter, we consider how firms can identify and track relevant macroenvironment trends and develop good sales forecasts. Making marketing decisions in a fast-changing world is both an art and a science. Holistic marketers recognize that the marketing environment is constantly presenting new opportunities and threats, and they understand the importance of continuously monitoring, forecasting, and adapting to that environment. Campbell is one of many companies trying to come to grips with the younger Millennial consumer.1 Collecting Information and Forecasting Demand 3 Campbell Soup Company's iconic red-and-white soup cans represent one of the most famous U.S. brands and were even the subject of an Andy Warhol portrait. Campbell has suffered a double whammy: Overall consumption of canned soup has declined 13 percent, and Campbell's market share has dropped from 67% to 53% due to the popularity of fresh and premium soups. To stop the sales slide, Campbell set out to better understand the 18-to-34-year-olds who make up 25% of the U.S. population and will profoundly affect the company's future. Adopting an anthropological research approach, they sent executives to study Millennial consumers face-to-face in "hipster market hubs" such as London; Austin, TX; Portland, OR; and Washington D.C. They engaged in "live-alongs," where they shopped and ate at home with young consumers, and "eat-alongs" where they dined with them in restaurants. The key insight? Millennials loved spices and ate more exotic food than their parents—they just couldn't cook it at home! Campbell's solution was a new line, Campbell's Go! Soup ready-to-eat meals in six flavor varieties such as Moroccan Style Chicken with Chickpeas, Spicy Chorizo and Pulled Chicken with Black Beans, and Coconut Curry and Chicken with Shiitake Mushrooms. Sold in pouches rather than cans to convey freshness and at a price ($3) more than three times the basic red-and-white line, the product line was promoted entirely online, including music and humor sites, gaming platforms, and social media. Campbell also sells Pepperidge Farms baked goods, V8 vegetable juices, and Prego pasta sauce, but soups account for half its revenue, so marketing success for the new line was crucial. Components of a Modern Marketing Information System The major responsibility for identifying significant marketplace changes falls to the company's marketers. Marketers have two advantages for the task: (1) disciplined methods for collecting information and (2) time spent interacting with customers and observing competitors and other outside groups. Some firms have marketing information systems that provide rich detail about buyer wants, preferences, and behavior. DuPont DuPont commissioned marketing studies to uncover personal pillow behavior for its Dacron Polyester unit, which supplies filling to pillow makers and sells its own Comforel brand. One challenge is that people don't give up their old pillows: 37 percent of one sample described their relationship with their pillow as being like that of "an old brands and were even the subject of an Andy Warhol portrait. pany has suffered a double whammy: Overall consumption of canned soup has declined 13 percent, and soups. To stop the sales slide, Campbell set out to better understand the 18-to-34-year-olds who make 68 PART 2 | CAPTuRing MARkeTing insighTs married couple," and an additional 13 percent said their pillow was like "a childhood friend." Respondents fell into distinct groups in terms of pillow behavior: stackers (23 percent), plumpers (20 percent), rollers or folders (16 percent), cuddlers (16 percent), and smashers, who pound their pillows into a more comfy shape (10 percent). Women were more likely to plump, men to fold. The prevalence of stackers led the company to sell more pillows packaged as pairs and at different levels of softness or firmness.2 Marketers also have extensive information about how consumption patterns vary across and within countries. On a per capita annual basis, for example, the Irish consume the most chocolate (24.7 lbs.), Czechs the most beer (131.7 liters), the French the most wine (45.7 liters), and Greeks the most cigarettes (4,313).3 Table 3.1 summa- rizes other comparisons across countries. Consider regional differences: Seattle's residents buy more sunglasses per person than in any other U.S. city; people in Salt Lake City (and Utah) eat the most Jell-O; Long Beach, CA, residents eat the most ice cream; and New York City dwellers buy the most country music CDs.4 Every firm must organize and distribute a continuous flow of information to its marketing managers. A marketing information system (MIS) consists of people, equipment, and procedures to gather, sort, analyze, evaluate, and distribute needed, timely, and accurate information to marketing decision makers. It relies on inter- nal company records, marketing intelligence activities, and marketing research. The company's marketing information system should combine what managers think they need, what they really need, and what is economically feasible. An internal MIS committee can interview a cross-section of marketing managers to discover their information needs. Table 3.2 displays some useful questions to ask them. Table 3.1 A Global Profile of Extremes Highest fertility rate Niger 47.7 births per 1,000 population Highest education expenditure as percent of GDP Timor-Leste 14.0% of GDP Highest number of mobile phone subscribers Macau 206.4 subscribers per 100 people Largest number of airports United States 15,079 airports Highest military expenditure as percent of GDP Saudi Arabia 10.1% of GDP Highest divorce rate South Korea 4.6 divorces per 1,000 population Telephone lines per capita Bermuda 89.0 lines per 100 people Highest cinema attendance India 4,432,700,000 cinema visits Highest GDP per person Liechtenstein $105,190 Largest aid donors as % of GDP Norway 1.10% of GDP Most economically dependent on agriculture Liberia 61.3% of GDP Highest population in workforce Qatar 74.7% Highest percent of women in workforce Mozambique 53.5% Most crowded road networks Hong Kong 286.7 vehicles per km of road Most deaths in road accidents Namibia 53.4 killed per 100,000 population Most tourist arrivals France 77,526,000 Highest life expectancy Japan 83.7 years Highest obesity rate United States 35.7% of adults Source: CIA World Factbook, www.cia.gov/library/publications/the-world-factbook, accessed July 24, 2012; The Economist's Pocket World in Figures, 2013 edition (London: Profile Books, 2012). ColleCTing infoRMATion And foReCAsTing deMAnd | chapter 3 69 Internal Records To spot important opportunities and potential problems, marketing managers rely on internal reports of orders, sales, prices, costs, inventory levels, receivables, and payables. The Order-TO-PaYmenT CYCle The heart of the internal records system is the order-to-payment cycle. Sales representatives, dealers, and customers send orders to the firm. The sales department prepares invoices, transmits copies to various depart- ments, and back-orders out-of-stock items. Shipped items generate shipping and billing documents that go to various departments. Because customers favor firms that can promise timely delivery, companies need to perform these steps quickly and accurately. SaleS InfOrmaTIOn SYSTemS Marketing managers need timely and accurate reports on current sales. Walmart operates a sales and inven- tory data warehouse that captures data on every item for every customer, every store, every day and refreshes it every hour. Companies that make good use of "cookies," records of Web site usage stored on personal browsers, are smart users of targeted marketing. Many consumers are happy to cooperate: Not only do they not delete cookies, but they also expect customized marketing appeals and deals once they accept them. Marketers must carefully interpret sales data, however, to avoid drawing wrong conclusions. Michael Dell illustrates: "If you have three yellow Mustangs sitting on a dealer's lot and a customer wants a red one, the salesman may be really good at figuring out how to sell the yellow Mustang. So the yellow Mustang gets sold, and a signal gets sent back to the factory that, hey, people want yellow Mustangs."5 daTabaSeS, daTa WarehOuSInG, and daTa mInInG The explosion of data brought by the maturation of the Internet and mobile technology gives companies unprecedented opportunities to engage their customers. It also threatens to overwhelm decision makers. "Marketing Insight: Digging into Big Data" describes opportunities and challenges in managing massive data sets.6 Table 3.2 Information Needs Probes 1. What decisions do you regularly make? 2. What information do you need to make these decisions? 3. What information do you regularly get? 4. What special studies do you periodically request? 5. What information would you want that you are not getting now? 6. What information would you want daily? Weekly? Monthly? Yearly? 7. What online or offline newsletters, briefings, blogs, reports, or magazines would you like to see on a regular basis? 8. What topics would you like to be kept informed of? 9. What data analysis and reporting programs would you want? 10. What are the four most helpful improvements that could be made in the present marketing information system? 70 PART 2 | CAPTuRing MARkeTing insighTs Marketing Intelligence The markeTInG InTellIGenCe SYSTem A marketing intelligence system is a set of procedures and sources that managers use to obtain everyday infor- mation about developments in the marketing environment. The internal records system supplies results data, but the marketing intelligence system supplies happenings data. Marketing managers collect marketing intelligence by reading books, newspapers, and trade publications; talking to customers, suppliers, distributors, and other company managers; and monitoring online social media. Before the Internet, sometimes you just had to go out in the field and watch the competition. Describing how he learned about a rival's drilling activity, oil and gas entrepreneur T. Boone Pickens recalls, "We would have someone who would watch [the rival's] drilling floor from a half mile away with field glasses. Our competitor didn't like it but there wasn't anything they could do about it. Our spotters would watch the joints and drill pipe. They would count them; each [drill] joint was 30 feet long. By adding up all the joints, you would be able to tally the depth of the well." Pickens knew that the deeper the well, the more costly for his rival to get the oil or gas up to the surface, information that gave him an immediate competitive advantage.7 Marketing intelligence gathering must be legal and ethical. The private intelligence firm Diligence paid auditor KPMG a fine of $1.7 million after its cofounder posed as a British intelligence officer and convinced a member of the audit team to share confidential documents about a Bermuda-based investment firm for a Russian conglomerate.8 A company can take eight possible actions to improve the quantity and quality of its marketing intelligence. After describing the first seven, we devote special attention to the eighth: collecting marketing intelligence on the Internet. • Train and motivate the sales force to spot and report new developments. The company must "sell" its sales force on their importance as intelligence gatherers. Grace Performance Chemicals, a division of W. R. signals, readings from sensors); and Volatility (with hundreds of new data sources in apps, Web services, and social networks). Some companies are harnessing Big Data. UK supermarket giant Tesco collects 1.5 billion pieces of data every month to set prices and promotions; U.S. kitchenware retailer Williams-Sonoma uses its cus- tomer knowledge to customize versions of its catalog. Amazon reports generating 30 percent of its sales through its recommendation engine ("You may also like"). Many financial brands are putting more emphasis on Big Data. Bank of America is tracking spending and demographic data and tailoring promotions—for example, offering back-to-school deals to cardholders with children. JPMorgan Chase has improved com- munications to new cardholders to gain more engagement. On the production side, GE set up a team of developers in Silicon Valley to improve the efficiency of the jet engines, generators, locomotives, and CT scanners it sells. Even a 1 percent improvement in the operation of commercial aircraft would save $2 billion for GE's customers in the airline industry. Sources: Schumpter, "Building with Big Data," The Economist, May 28, 2011; Jessica Twentyman, "Big Data Is the 'Next Frontier'" Financial Times, November 14, 2011; Jacques Bughin, John Livingston, and Sam Marwaha, "Seizing the Potential of Big Data," McKinsey Quarterly 4 (October 2011); "Mining the Big Data Goldmine," Special Advertising Section, Fortune, 2012; "Financial Brands Tap Big Data," www.warc.com, September 13, 2012; Thomas H. Davenport, Paul Barth, and Randy Bean, "How 'Big Data' Is Different," MIT Sloan Management Review 54 (Fall 2012), pp. 43–46; Andrew McAfee and Erik Brynjolfsson, "Big Data: The Management Revolution," Harvard Business Review, October 2012, pp. 60–68; Ashlee Vance, "GE Tries to Make Its Machines Cool and Connected," Bloomberg Businessweek, December 10, 2012, pp. 44–46. marketing insight Digging Into Big Data Although unverified, one popular estimate says 90 percent of the data that has ever existed was created in the past two years. In one year, people stored enough data to fill 60,000 Libraries of Congress. YouTube receives 24 hours of video every minute. The world's 4 billion mobile phone users provide a steady source of data. Manufacturers are putting sensors and chips into appliances and products, generating even more data. The danger, of course, is information overload. More data are not better unless they can be correctly processed, analyzed, and inter- preted. In one poll of North American senior business executives, more than 90 percent reported collecting more information—86 percent more on average—than in years past. Unfortunately, roughly as many said they were missing out on new revenue growth because they could not gather the appropriate insights from those data. And therein lies the opportunity and challenge of Big Data. Although a universally agreed-upon definition does not exist, Big Data describes data sets that cannot be effectively managed with traditional database and business intelligence tools. One industry expert, James Kobielus, sees Big Data as distinctive because of: Volume (from hun- dreds of terabytes to petabytes and beyond); Velocity (up to and includ- ing real-time, sub-second delivery); Variety (encompassing structured, unstructured, and semi-structured formats: messages, images, GPS ColleCTing infoRMATion And foReCAsTing deMAnd | chapter 3 71 Grace, instructs its sales reps to observe the innovative ways customers used its products and suggest possible new prod- ucts. Some customers used Grace waterproofing materials to soundproof their cars and patch boots and tents. Seven new-product ideas emerged, worth millions in sales.9 • Motivate distributors, retailers, and other intermediaries to pass along important intelligence. Marketing intermediaries are often closer to the customer and competition and can of- fer helpful insights. Combining data from its retailers Safeway, Kroger, and Walmart with its own qualitative insights, food producer ConAgra learned that many mothers switched to time-saving meals and snacks when school started. It launched its "Seasons of Mom" campaign to help grocers adjust to sea- sonal shifts in household needs.10 • Hire external experts to collect intelligence. Many compa- nies hire specialists to gather marketing intelligence.11 SavOn Convenience Stores, an enterprise of the Oneida Indian Nation, conducts 52 "mystery shopper" visits a month across its 13 stores. Stores are graded on employee responsive- ness to customers, product quality, food freshness, restroom cleanliness, and stock levels. SavOn gives awards to winning stores.12 • Network internally and externally. The firm can purchase competitors' products, attend open houses and trade shows, read competitors' published reports, attend stockhold- ers' meetings, talk to employees, collect competitors' ads, consult with suppliers, and look up news stories about competitors. • Set up a customer advisory panel. Members of advisory panels might include the company's largest, most outspoken, most sophisticated, or most representative cus- tomers. GlaxoSmithKline sponsored an online community devoted to weight loss, where marketers felt they learned far more than they could have gleaned from focus groups on topics from packaging its weight-loss pill to where to place in-store marketing.13 • Take advantage of government-related data resources. The U.S. Census Bureau provides an in-depth look at the population swings, demographic groups, regional migrations, and changing family structure of the more than 311,591,917 people in the United States. Census marketer Nielsen Claritas SiteReports cross-references census figures with consumer surveys and its own grassroots research for clients such as The Weather Williams Sonoma uses information it has learned about its customers to customize its catalogs. So ur ce : © J ef f G re en be rg 2 o f 6 /A la m y Firms such as NPD provide detailed audits on how American consumers use their kitchens. So ur ce : D av id S ac ks /G et ty I m ag es 72 PART 2 | CAPTuRing MARkeTing insighTs Channel, BMW, and Sovereign Bank. SiteReports offers more than 50 reports and maps that help companies analyze markets, select site locations, and target customers effectively.14 • Purchase information from outside research firms and vendors. Well-known data suppliers like A.C. Nielsen Company and Information Resources Inc. collect information about product sales and consumer exposure to media; they also gather consumer-panel data. Attensity offers a suite of products to monitor customer conver- sations from a variety of social, online, and internal sources.15 NPD conducts its Kitchen Audit study every three years to determine what food ingredients U.S. households have on hand and what appliances, cookware, and utensils they own and to assess usage and sources of recipes.16 COlleCTInG markeTInG InTellIGenCe On The InTerneT Online customer review boards, discussion forums, chat rooms, and blogs can distribute one customer's expe- riences or evaluation to other potential buyers and, of course, to marketers seeking information. Here are five places to find competitors' product strengths and weaknesses online. • Independent customer goods and service review forums. Independent forums include Web sites such as Epinions.com, RateItAll.com, ConsumerReview.com, and Bizrate.com. Bizrate.com collects millions of con- sumer reviews of stores and products each year from two sources: its 1.3 million volunteer members and feed- back from stores that allow Bizrate.com to collect it directly from customers as they buy. • Distributor or sales agent feedback sites. Feedback sites offer positive and negative product or service re- views, but the stores or distributors have built the sites themselves. Amazon.com offers an interactive feedback opportunity through which buyers, readers, editors, and others can review all products on the site, especially books. Elance.com is an online professional services provider that allows contractors to describe their experi- ence and level of satisfaction with subcontractors. • Combo sites offering customer reviews and expert opinions. Combination sites are concentrated in financial services and high-tech products that require professional knowledge. ZDNet.com offers customer and expert evaluations of technology products based on ease of use, features, and stability. • Customer complaint sites. Customer complaint forums are designed mainly for dissatisfied customers. PlanetFeedback.com allows customers to voice unfavorable experiences with specific companies. • Public blogs. Tens of millions of blogs and social networks offer personal opinions, reviews, ratings, and recom- mendations on virtually any topic—and their numbers continue to grow. Nielsen's BuzzMetrics analyzes blogs and social networks for insights into consumer sentiment and threats to the brand that may emerge online.17 Of course, companies can use many of these sources to monitor their own customers, products, services, and brands. Customer-service forums linked on a company's home page are a very useful tool. Customers often respond faster and provide better answers to other customers than a company could. COmmunICaTInG and aCTInG On markeTInG InTellIGenCe The competitive intelligence function works best when it is closely coordinated with the decision-making pro- cess. Given the speed of the Internet, it is important to act quickly on information gleaned online, as StubHub and Coca-Cola found:18 • When ticket broker StubHub detected criticism of its brand after confusion arose about refunds for a rain- delayed Yankees–Red Sox game, it quickly offered appropriate discounts and credits. The director of customer service observed, "This [episode] is a canary in a coal mine for us." • When its monitoring software spotted a Twitter post that went to 10,000 followers from an upset consumer who couldn't redeem a prize from a MyCoke rewards program, Coke quickly posted an apology on his Twitter profile and offered to help resolve the situation. After the consumer got the prize, he changed his Twitter avatar to a photo of himself holding a Coke bottle. Analyzing the Macroenvironment Successful companies recognize and respond profitably to unmet needs and trends. ColleCTing infoRMATion And foReCAsTing deMAnd | chapter 3 73 needS and TrendS Dockers was created to meet the needs of baby boomers who could no longer fit into their jeans and wanted a physically and psychologically comfortable pair of pants. Enterprising individuals and companies create new solutions to similarly unmet needs. Let's distinguish among fads, trends, and megatrends. • A fad is "unpredictable, short-lived, and without social, economic, and political significance." A company can cash in on a fad such as Crocs clogs, Elmo TMX dolls, and Pokémon gifts and toys, but getting it right requires luck and good timing.19 • A direction or sequence of events with momentum and durability, a trend is more predictable and durable than a fad; trends reveal the shape of the future and can provide strategic direction. A trend toward health and nutrition awareness has brought increased government regulation and negative publicity for firms seen as peddling unhealthy food. Macaroni Grill revamped its menu to include more low-calorie and low-fat offer- ings after The Today Show called its chicken and artichoke sandwich "the calorie equivalent of 16 Fudgesicles" and Men's Health declared its 1,630-calorie dessert ravioli the "worst dessert in America."20 • A megatrend is a "large social, economic, political, and technological change [that] is slow to form, and once in place, influences us for some time—between seven and ten years, or longer."21 Several firms offer social-cultural forecasts. The Yankelovich Monitor has tracked 35 social value and lifestyle trends since 1971, such as "anti-bigness," "mysticism," and "living for today." A new market opportunity doesn't guarantee success, of course. Even if the new product is technically feasible, market research is necessary to deter- mine profit potential. IdenTIfYInG The majOr fOrCeS The new century brought new challenges: the steep decline of the stock market, which affected savings, invest- ment, and retirement funds; rising and long-lasting unemployment; corporate scandals; stronger indications of global warming and other signs of deterioration in the environment; and continued terrorism. Firms must monitor six major forces in the broad environment: demographic, economic, social-cultural, natu- ral, technological, and political-legal. We'll describe them separately, but remember their interactions will lead to new opportunities and threats. For example, explosive population growth (demographic) leads to more resource depletion and pollution (natural), which leads consumers to call for more laws (political-legal), which stimulate new technological solutions and products (technological) that, if they are affordable (economic), may actually change attitudes and behavior (social-cultural). Macaroni Grill revamped its menu to include more offerings to appeal to health-conscious consumers. So ur ce : © K ri st of fe r T ri pp la ar /A la m y 74 PART 2 | CAPTuRing MARkeTing insighTs The demOGraPhIC envIrOnmenT The main demographic factor marketers monitor is population, including the size and growth rate of population in cities, regions, and nations; age distribution and ethnic mix; educational levels; and household patterns. WorldWide PoPulaTion GroWTh World population growth is explosive: The world's population on July 1, 2012, was estimated at 7,027,349,193, forecasted to rise to 8.82 billion by 2040 and exceed 9 billion by 2045.22 Table 3.3 offers an interesting perspective.23 Population growth is highest in countries and communities that can least afford it. Developing regions of the world house 84 percent of the world's population and are growing at 1 percent to 2 percent per year; developed countries' populations are growing at only 0.3 percent.24 In developing countries, modern medicine is lowering the death rate, but birthrates remain fairly stable. A growing population does not mean growing markets unless there is sufficient purchasing power. Education can raise the standard of living but is difficult to accomplish in most developing countries. Nonetheless, companies that carefully analyze these markets can find major opportunities and sometimes lessons they can apply at home. See "Marketing Memo: Finding Gold at the Bottom of the Pyramid."25 PoPulaTion aGe Mix Mexico has a very young population and rapid population growth. Italy, at the other extreme, has one of the world's oldest populations. Milk, diapers, school supplies, and toys will be more important products in Mexico than in Italy. There is a global trend toward an aging population. In 1950, there were only 131 million people 65 and older; in 1995, their number had almost tripled to 371 million. By 2050, one of 10 people worldwide will be 65 or older. In the United States, baby boomers—those born between 1946 and 1964—represent a market of some 36 million, about 12 percent of the population. By 2011, the 65-and-over population was growing faster than the population as a whole in each of the 50 states.26 Table 3.3 The World as a Village If the world were a village of 100 people: • Sixty-one villagers would be Asian (of those, 20 would be Chinese and 17 would be Indian), 14 would be African, 11 would be European, nine would be Latin or South American, five would be North American, and none of the villagers would be from Australia, Oceania, or Antarctica. • At least 18 villagers would be unable to read or write, but 33 would have cellular phones and 16 would be online on the Internet. • Twenty-seven villagers would be under 15, and seven would be over 64. There would be an equal number of males and females. • There would be 18 cars in the village. • Sixty-three villagers would have inadequate sanitation. • Thirty-three villagers would be Christians, 20 would be Muslims, 13 would be Hindus, six would be Buddhists, 14 would be nonreligious, and the remaining 14 would be members of other religions. • Thirty villagers would be unemployed or underemployed, while of those 70 who would work, 28 would work in agriculture (primary sector), 14 would work in industry (secondary sector), and the remaining 28 would work in the service sector (tertiary sector). • Fifty-three villagers would live on less than two U.S. dollars a day. One villager would have AIDS, 26 villagers would smoke, and 14 villagers would be obese. • By the end of a year, one villager would die and two new villagers would be born so the population would climb to 101. Source: David J. Smith and Shelagh Armstrong, If the World Were a Village: A Book about the World's People, 2nd ed. (Tonawanda, NY: Kids Can Press, 2002). ColleCTing infoRMATion And foReCAsTing deMAnd | chapter 3 75 Marketers generally divide the population into six age groups: preschool children, school-age children, teens, young adults age 20 to 40, middle-aged adults 40 to 65, and older adults 65 and older. Some marketers focus on cohorts, groups of individuals born during the same time period who travel through life together. The defining moments they experience as they come of age and become adults (roughly ages 17 through 24) can stay with them for a lifetime and influence their values, preferences, and buying behaviors. eThnic and oTher MarkeTs Ethnic and racial diversity varies across countries. At one extreme is Japan, where almost everyone is native Japanese; at the other extreme is the United States, 12 percent of whose people were born in another country. As of the 2010 Census, the U.S. population was: White (72 percent), Black or African American (13 percent), American Indian and Alaskan Native (0.9 percent), Asian (5 percent), Hispanic (16 percent). More than half the growth between 2000 and 2010 came from the increase in the Hispanic population, which grew by 43 percent, from 35.3 million to 50.5 million, representing a major shift in the nation's ethnic center of gravity. Geographically, the 2010 Census revealed that Hispanics were moving to states like North Carolina where they had not been concentrated before and that they increasingly live in suburbs.27 From the food U.S. consumers eat to the clothing, music, and cars they buy, Hispanics are having a huge impact. Companies are refining their products and marketing to reach this fastest-growing and most influential consumer group: Research by Hispanic media giant Univision suggests 70 percent of Spanish-language viewers are more likely to buy a product when it's advertised in Spanish. Fisher-Price, recognizing that many Hispanic mothers did not grow up with its brand, shifted away from appeals to their heritage. Instead, its ads emphasized the joy of mother and child playing together with Fisher-Price toys.28 Hispanics are not the only fast-growing minority segment.29 Business writer C. K. Prahalad believes much innovation can come from developments in emerging markets such as China and India. He estimates 5 billion unserved and underserved people make up the "bottom of the pyramid." One study showed that 4 billion people live on $2 or less a day. Firms operating in those markets must learn how to do more with less. In Bangalore, India, Narayana Hrudayalaya Hospital charges a flat fee of $1,500 for heart bypass surgery that costs 50 times as much in the United States. The hospital has low labor and operating expenses and an assembly-line view of care. The approach works—the hospital's mortality rates are half those of U.S. hospitals. Narayana also operates on hundreds of infants for free and profitably insures 2.5 million poor Indians against serious illness for 11 cents a month. Similarly, Arvind Eye Care System, established by Govindappa Venkatswamy in 1976 in India, has performed 4 million operations using an approach lik- ened to "McDonald's-style" high-volume assembly. Aravind also developed an intra-ocular lens, manufactured by its subsidiary, Aurolab, at a fraction of the cost of imports. SalaUno, a for-profit social enterprise based in San Francisco, replicated the Aravind model in Mexico, carrying out 133 cataract operations a month for a year—free of charge for those who could not afford the treatment. The transfer of innovations from developing to developed markets is what Dartmouth professor Vijay Govindrajan calls reverse innovation. He sees opportunity in focusing on the needs and constraints of a developing market to create an inexpensive product that can succeed there and then introducing it as a cheaper alternative in developed markets. He also sees reverse innovation's public policy benefits, which can transform industries through the successful development of ultra-low-cost transportation, renewable energy, clean water, micro finance, affordable heath care, and low-cost housing. Among successful reverse innovators, Nestlé repositioned its low-fat Maggi brand dried noodles—a popular, low-priced meal for rural Pakistan and India—as a budget-friendly health food in Australia and New Zealand. U.S.-based Harman International, known for high-end dashboard audio systems designed by German engineers, developed a radically simpler and cheaper way to create products for China, India, and emerging markets and is applying that method to its product-development centers in the West. It now can sell a range of products priced from low to high and is looking into infotainment systems for motorbikes, a popular form of transportation in emerging markets and around the world. Sources: C. K. Prahalad, The Fortune at the Bottom of the Pyramid (Upper Saddle River, NJ: Wharton School Publishing, 2010); Bill Breen, "C. K. Prahalad: Pyramid Schemer," Fast Company, March 2007, p. 79; Reena Jane, "Inspiration from Emerging Economies," BusinessWeek, March 23, 2009, pp. 38–41; Vijay Govindarajan and Chris Trimble, Reverse Innovation: Create Far from Home, Win Everywhere (Boston, MA: Harvard Business School Publishing, 2012); Jeffrey R. Immelt, Vijay Govindarajan, and Chris Trimble, "How GE Is Disrupting Itself," Harvard Business Review, October 2009, pp. 56–65; Vijay Govindrajan, "A Reverse-Innovation Playbook," Harvard Business Review, April 2012, pp.120–23; Felicity Carus, "Reverse Innovation Brings Social Solutions to Developed Countries," The Guardian, August 29, 2012; Constantinos C. Markides, "How Disruptive Will Innovations from Emerging Markets Be?," MIT Sloan Management Review, 54 (Fall 2012), pp. 23–25. Finding Gold at the Bottom of the Pyramidmarketing memo 76 PART 2 | CAPTuRing MARkeTing insighTs InDIan-aMerIcans The U.S. Indian-American population has exploded over the past decade, according to the 2010 Census, surpassing Filipinos as the nation's second-largest Asian population after Chinese. Affluent, well-educated, and consumer-oriented, Indian-Americans are attractive to marketers. Nationwide Insurance developed print and TV ads for them and other South Asians in the New York tristate area and San Francisco and Silicon Valley. Cadillac has run newspaper ads and local TV spots in Chicago and New York after seeing many Indian-Americans and South Asians in its showrooms. Zee TV was the first Hindi satellite channel and is the leading network serving the South Asian audience. Yet marketers must not overgeneralize—within each group are consumers quite different from each other.30 Diversity also goes beyond ethnic and racial markets. More than 51 million U.S. consumers have disabilities, and they constitute a market for home delivery companies such as Internet grocer Peapod. educaTional GrouPs The population in any society falls into five educational groups: illiterates, high school dropouts, high school diplomas, college degrees, and professional degrees. More than two-thirds of the world's 793 million illiterate adults are found in only eight countries (Bangladesh, China, Egypt, Ethiopia, India, Indonesia, Nigeria, and Pakistan); of all illiterate adults in the world, two-thirds are women; extremely low literacy rates are concentrated in three regions—the Arab states, South and West Asia, and Sub-Saharan Africa—where around one-third of the men and half of all women are illiterate (2005 est.).31 The United States has one of the world's highest percentages of college-educated citizens.32 As of March 2011, just over 30 percent of U.S. adults held at least a bachelor's degree, and 10.9 percent held a graduate degree, up from 26.2 percent and 8.7 percent 10 years earlier. Half of 18- and 19-year-olds were enrolled in college in 2009, but not all college students are young. About 16 percent are 35 and older; they also make up 37 percent of part-time students. The large number of educated people in the United States drives strong demand for high-quality books, magazines, and travel and creates a supply of skills. household PaTTerns The traditional U.S. household included a husband, wife, and children under 18 (sometimes with grandparents). By 2010, only 20 percent of U.S. households met this definition, down from about 25 percent a decade before and 43 percent in 1950. Married couples have dropped below half of all U.S. households for the first time (48 percent), far below the 78 percent of 1950. The median age at first marriage has also never been higher: 26.5 for brides and 28.7 for grooms.33 The U.S. family has been steadily evolving toward less traditional forms. More people are divorcing, separating, choosing not to marry, or marrying later. Other types of households are single live-alones (27 percent), single- parent families (8 percent), childless married couples and empty nesters (32 percent), living with nonrelatives only (5 percent), and other family structures (8 percent). Indian-Americans are a fast growing minority segment with much appeal to marketers. So ur ce : A sh ok S in ha /T ax i ColleCTing infoRMATion And foReCAsTing deMAnd | chapter 3 77 The biggest change for the decade was the jump in households headed by women without husbands—up 18 percent. Nontraditional households are growing more rapidly than traditional households. Academics and mar- keting experts estimate the gay and lesbian population at 4 percent to 8 percent of the total U.S. population, higher in urban areas.34 Each type of household has distinctive needs and buying habits. The single, separated, widowed, and divorced may need smaller apartments; inexpensive and smaller appliances, furniture, and furnishings; and smaller-size food packages. Many non-traditional households feel advertising ignores families like theirs, suggesting an oppor- tunity for advertisers.35 Even traditional households have changed. Boomer dads marry later than their fathers and grandfathers did, shop more, and are much more active in raising their kids. Bugaboo makes innovative baby strollers that speaks to modern parents. Bugaboo's iconic functional strollers have unique designs and functionalities such as adjustable suspension and an extendable handle bar perfect for taller dads. And before Dyson, the high-end vacuum company, appealed to U.S. dads' inner geek by focusing on the machine's revolutionary technology, men weren't even on the radar for vacuum cleaner sales. Now they make up 40 percent of Dyson's customers.36 The eCOnOmIC envIrOnmenT Purchasing power depends on consumers' income, savings, debt, and credit availability as well as the price level. As the recent economic downturn vividly demonstrated, fluctuating purchasing power strongly affects business, especially for products geared to high-income and price-sensitive consumers. Marketers must understand con- sumer psychology and levels and distribution of income, savings, debt, and credit. consuMer PsycholoGy The recession that began in 2008 initiated new consumer spending patterns. Were these temporary adjustments or permanent changes?37 The middle class—the bread and butter of many firms—was hit hard by record declines in both wages and net worth. Some experts believed the recession had fundamentally shaken consumers' faith in the economy and their personal financial situations. "Mindless" spending would be out; willingness to comparison shop, haggle, and use discounts would become the norm.38 Consumers at the time certainly seemed to believe so. In one survey, almost two-thirds said the recession's eco- nomic changes would be permanent; nearly one-third said they would spend less than before the recession. Others believed tighter spending was a short-term constraint and not a fundamental behavioral change; they predicted their spending would resume when the economy improved.39 Identifying the more likely long-term scenario—especially for the coveted 18- to 34-year-old group—would help market- ers decide how to spend their money. Executives at Sainsbury, the third-largest UK chain of supermarkets, concluded that the recession had created a more risk-averse British consumer, sav- ing more, paying off debts instead of borrowing, and shopping in more cost-conscious ways. Even wealthy UK consumers traded down some to lower-cost items. As one retail executive said, "There's nobody who can afford not to try to save."40 incoMe disTribuTion There are four types of industrial structures: subsistence economies like Papua New Guinea, with few opportunities for marketers; raw-material- exporting economies like Democratic Republic of Congo (copper) and Saudi Arabia (oil), with good markets for equipment, tools, supplies, and luxury goods for the rich; industrializing economies like India, Egypt, and the Philippines, where a new rich class and a growing middle class demand new types of goods; and industrial economies like Western Europe, with rich markets for all sorts of goods. Marketers often distinguish countries using five income-dis- tribution patterns: (1) very low incomes; (2) mostly low incomes; (3) very low, very high incomes; (4) low, medium, high incomes; and (5) mostly medium incomes. Consider the market for the Lamborghini, an automobile costing more than $150,000. The market would be very small in countries with type 1 or 2 income patterns. One of the largest single markets for the ultra-expensive The unique design of Bugaboo baby strollers are especially appeal- ing to modern parents. So ur ce : B ug ab oo I nt er na ti on al B .V . 78 PART 2 | CAPTuRing MARkeTing insighTs sports car Lamborghinis is Portugal (income pattern 3), one of the poorer countries in Western Europe, but with high enough income inequality that there are also wealthy families who can afford expensive cars.41 incoMe, savinGs, debT, and crediT U.S. consumers have a high debt-to-income ratio, which slows expenditures on housing and large-ticket items. When credit became scarcer in the recession, especially for lower- income borrowers, consumer borrowing dropped for the first time in two decades. The financial meltdown that led to this contraction was due to overly liberal credit policies that allowed consumers to buy homes and other items they could not really afford. Marketers wanted every possible sale, banks wanted to earn interest on loans, and near financial ruin resulted. An economic issue of increasing importance is the migration of manufacturers and service jobs offshore. From India, Infosys provides outsourcing services for Cisco, Nordstrom, Microsoft, and others. The 35,000 employees the fast-growing $4.2 billion company hires every year receive technical, team, and communication training in Infosys's $120 million facility outside Bangalore.42 The SOCIOCulTural envIrOnmenT From our sociocultural environment we absorb, almost unconsciously, a world view that defines our relationships to ourselves, others, organizations, society, nature, and the universe. • Views of ourselves. Some "pleasure seekers" chase fun, change, and escape; others seek "self-realization." Some adopt more conservative behaviors and ambitions (see Table 3.4 for favorite consumer leisure-time activities and how they have changed, or not, in recent years). • Views of others. People are concerned about the homeless, crime and victims, and other social problems. At the same time, they seek those like themselves for long-lasting relationships, suggesting a growing market for social-support products and services such as health clubs, cruises, and religious activity as well as "social sur- rogates" like television, video games, and social networking sites. • Views of organizations. After a wave of layoffs and corporate scandals, organizational loyalty has declined. Companies need new ways to win back consumer and employee confidence. They need to ensure they are good corporate citizens and that their consumer messages are honest. • Views of society. Some people defend society (preservers), some run it (makers), some take what they can from it (takers), some want to change it (changers), some are looking for something deeper (seekers), and still others want to leave it (escapers).43 Consumption patterns often reflect these social attitudes. Makers are high achievers who eat, dress, and live well. Changers usually live more frugally, drive smaller cars, and wear sim- pler clothes. Escapers and seekers are a major market for movies, music, surfing, and camping. • Views of nature. Business has responded to increased awareness of nature's fragility and finiteness by making more green products, seeking their own new energy sources, and reducing their environmental footprint. Companies are also literally tapping into nature more by producing wider varieties of camping, hiking, boat- ing, and fishing gear such as boots, tents, backpacks, and accessories. • Views of the universe. Most U.S. citizens are monotheistic, although religious conviction and practice have waned through the years or been redirected into an interest in evangelical movements or Eastern religions, mysticism, the occult, and the human potential movement. Other cultural characteristics of interest to marketers are core cultural values and subcultures. Let's look at both. High-priced Lamborghini sports cars have found success in relatively poorer countries by appealing to enough affluent buyers. So ur ce : © P au l B es t/ A la m y ColleCTing infoRMATion And foReCAsTing deMAnd | chapter 3 79 core culTural values Most people in the United States still believe in working, getting married, giving to charity, and being honest. Core beliefs and values are passed from parents to children and reinforced by social institutions—schools, churches, businesses, and governments. Secondary beliefs and values are more open to change. Believing in the institution of marriage is a core belief; believing people should marry early is a secondary belief. Marketers have some chance of changing secondary values but little chance of changing core values. The nonprofit organization Mothers Against Drunk Drivers (MADD) does not try to stop the sale of alcohol but promotes lower legal blood-alcohol levels for driving and limited operating hours for businesses that sell alcohol. Although core values are fairly persistent, cultural swings do take place. In the 1960s, hippies, the Beatles, Elvis Presley, and other cultural phenomena had a major impact on hairstyles, clothing, sexual norms, and life goals. Today's young people are influenced by new heroes and activities: music entertainer and mogul Jay-Z, singer Lady Gaga, and snowboarder and skateboarder Shaun White. subculTures Each society contains subcultures, groups with shared values, beliefs, preferences, and behaviors emerging from their special life experiences or circumstances. Marketers have always loved teenagers because they are trendsetters in fashion, music, entertainment, ideas, and attitudes. Attract someone as a teen, and you will likely keep the person as a customer later in life. Frito-Lay, which draws 15 percent of its sales from teens, noted a rise in chip snacking by grown-ups. "We think it's because we brought them in as teenagers," said Frito-Lay's marketing director.44 The naTural envIrOnmenT In Western Europe, "green" parties have pressed for public action to reduce industrial pollution. In the United States, experts have documented ecological deterioration, and watchdog groups such as the Sierra Club and Friends of the Earth commit to political and social action. Table 3.4 Favorite Leisure-Time Activities 1995 (via phone) 2013 (via online) % % Reading 28 Watch TV 42 TV watching 25 Reading 37 Spending time with family/kids 12 Spending time with families and friends 18 Fishing 10 Watching/Going to movies 11 Gardening 9 Exercise/working out 10 Playing team sports 9 Playing video games and computer/ Internet games 10 Going to movies 8 Walking/running/jogging 8 Walking 8 Gardening 7 Entertaining 7 Concerts/listening to/playing music 7 Golf 6 Hobby related activities 5 Sources: Harris Poll, "Favorite Leisure Activities" (via online), articleId/1345/ctl/ ReadCustom%20Default/Default.aspx, Table 4, accessed July 2014; and Harris Poll, "Favorite Leisure-Time Activities" (Spontaneous, Unaided Responses, via phone), Table 1, accessed July 2014. 80 PART 2 | CAPTuRing MARkeTing insighTs Steel companies and public utilities have invested billions of dollars in pollution-control equipment and environ- mentally friendly fuels, making hybrid cars, low-flow toilets and showers, organic foods, and green office buildings everyday realities. Opportunities await those who can reconcile prosperity with environmental protection. Consider these solutions to concerns about air quality:45 • Nearly a quarter of the carbon dioxide that makes up about 80 percent of all greenhouse gases comes from electrical power plants. Dublin-based Airtricity operates wind farms in the United States and the United Kingdom that offer cheaper and greener electricity. • Transportation is second only to electricity generation as a contributor to global warming, accounting for roughly a fifth of carbon emissions. Vancouver-based Westport Innovations developed a conversion technol- ogy—high-pressure direct injection—that allows diesel engines to run on cleaner-burning liquid natural gas, reducing greenhouse emissions by a fourth. • Due to millions of rural cooking fires, parts of Southern Asia suffer extremely poor air quality. A person cook- ing over an open wood or kerosene fire inhales the equivalent of two packs of cigarettes a day. Illinois-based Sun Ovens International makes family-sized and institutional solar ovens that use mirrors to redirect the sun's rays into an insulated box. Used in 130 countries, the oven both saves money and reduces greenhouse gas emissions. Today's youth are more likely to be influenced by contemporary music icons such as Jay-Z and Lady Gaga. So ur ce : A ss oc ia te d Pr es s So ur ce : A ss oc ia te d Pr es s Irish firm Airtricity is developing new wind farms as an alterna- tive energy source. So ur ce : © D av id C ai rn s/ A la m y ColleCTing infoRMATion And foReCAsTing deMAnd | chapter 3 81 Corporate environmentalism recognizes the need to integrate environmental issues into the firm's strategic plans. Trends for marketers to be aware of include the shortage of raw materials, especially water; the increased cost of energy; increased pollution levels; and the changing role of governments.46 (See also "Marketing Insight: The Green Marketing Revolution.") however, paying significantly more to be environmentally friendly was becoming a barrier for many consumers. Interestingly, although some marketers assume younger people are more concerned about the environment, some research suggests older consumers actually take their eco-responsibilities more seriously. Company Perspectives In the past, "green marketing" programs were not always entirely suc- cessful. Those that were persuaded consumers they were acting in their own and society's long-run interest at the same time by buying, for instance, organic foods that were healthier, tastier, and safer and energy-efficient appliances that cost less to run. Some green products have emphasized their natural benefits for years, like Tom's of Maine, Burt's Bees, Stonyfield Farm, and Seventh Generation. Products offering environmental benefits are becoming more mainstream. Part of the initial success of Clorox Green Works household cleaning products, launched in January 2008, was that it found the sweet spot where a target market wanting to take smaller steps toward a greener lifestyle met a green product with a very modest price premium and sold through a grassroots marketing program. The recession took its toll on some newly launched green prod- ucts, however, and Green Works and similar products from Arm & Hammer, Windex, Palmolive, and Hefty found sales stalling. Some con- sumers have also become more skeptical of green claims that are hard to verify. One challenge is the difficulty consumers have in experiencing or observing the environmental benefits of products, leading to accu- sations of "greenwashing" where products are not nearly so green or environmentally beneficial as their marketing might suggest. Some experts recommend avoiding "green marketing myopia" by focusing on consumer value positioning, understanding what consum- ers know and should know, and credible product claims. During tough economic times especially, having the right value proposition and mak- ing sure green products are seen as effective and affordable are critical. Sources: Jacquelyn A. Ottman, Edwin R. Stafford, and Cathy L. Hartman, "Avoiding Green Marketing Myopia," Environment (June 2006), pp. 22–36; Jill Meredith Ginsberg and Paul N. Bloom, "Choosing the Right Green Marketing Strategy," MIT Sloan Management Review (Fall 2004), pp. 79–84; Jacquelyn Ottman, Green Marketing: Opportunity for Innovation, 2nd ed. (New York: BookSurge Publishing, 2004); Jacquelyn Ottman, The New Rules of Green Marketing (San Francisco: Berrett-Koehler, 2012); Mark Dolliver, "Deflating a Myth," Brandweek, May 12, 2008, pp. 30–31; Jeffrey M. Jones, "Worry about U.S. Water, Air Pollution at Historic Lows," www.gallup.com, April 13, 2012; "The 2011 Green Brands Survey," www .cohenwolfe.com, June 8, 2011; "Greendex 2012: Consumer Choice and the Environment—A Worldwide Tracking Survey," www.nationalgeographic.com, July 2012; "Green Gets Real," www.gfkamerica.com, accessed November 12, 2012; Stephanie Clifford and Andrew Martin, "As Consumers Cut Spending, 'Green' Products Lose Allure," New York Times, April 21, 2011; Tiffany Hsu, "Skepticism Grows over Products Touted as Eco-Friendly," Los Angeles Times, May 21, 2011. marketing insight The Green Marketing Revolution Both consumers and companies are changing the way they view envi- ronmental issues, as the following descriptions illustrate. Consumer Perspective Consumers have put their very real environmental concerns into words and actions, focusing on green products, corporate sustainability, and other environmental issues. Here are highlights of some notable studies. • WPP Green Brands Study. The WPP Green Brands Study surveys 9,000 people in eight countries and evaluates 370 brands. In 2011 it found consumer interest in green products had expanded to auto, energy, and technology sectors in addition to personal care, food, and household products. Sixty percent of consumers stated they wanted to buy products from environmentally responsible companies. In developed countries such as the United States and United Kingdom, 20 percent were willing to spend more than 10 percent extra on a green product. Consumers in developing countries put even more value on green products: Ninety-five percent of Chinese consumers, for example, said they were willing to pay more for a green product. • Greendex. A collaboration between National Geographic and environmental research consultants GlobeScan, Greendex is a sustainable consumption index of actual consumer behavior and material lifestyles across 17 countries. It defines environmentally friendly consumer behavior in terms of people's transportation patterns, household energy, resource use, and consumption of food and everyday goods and how well consumers minimize their environmental impact. The 2012 survey found the top-scoring consumers in developing countries: India, China, and Brazil in de- scending order. Developed countries scored lower, with U.S. con- sumers lowest, followed by Canadians, Japanese, and the French. • Gallup. Gallup has consistently found U.S. consumers are most concerned about pollution of drinking water, rivers, lakes, and reser- voirs and maintenance of fresh water for household needs and least concerned about global warming. Overall, the 2012 survey showed all ratings at lower levels than their 2000 peak as more U.S. adults feel environmental conditions in the United States are improving. • GfK Roper. The 2012 GfK Roper Green Gauge Study showed key aspects of "green" culture—from organic purchase to recyclability—have gone mainstream. U.S. consumers increas- ingly turn to digital devices to learn about the environment and share their green experiences. During slow economic recovery, 82 PART 2 | CAPTuRing MARkeTing insighTs • The earth's raw materials consist of the infinite, the finite renewable, and the finite nonrenewable. Firms whose products require finite nonrenewable resources—oil, coal, platinum, zinc, silver—face substan- tial cost increases as depletion approaches. Firms that can develop substitute materials have an excellent opportunity. • One finite nonrenewable resource, oil, has created serious problems for the world economy. As oil prices soar, companies search for practical means to harness solar, nuclear, wind, and other alternative energies. • Some industrial activity will inevitably damage the natural environment, creating a large market for pollution- control solutions such as scrubbers, recycling centers, and landfill systems as well as for alternative ways to produce and package goods. • Many poor nations are doing little about pollution, lacking the funds or the political will. It is in the richer nations' interest to help them control their pollution, but even richer nations today lack the necessary funds. The TeChnOlOGICal envIrOnmenT The essence of market capitalism is a dynamism that tolerates the creative destructiveness of technology as the price of progress. Transistors hurt the vacuum-tube industry; autos hurt the railroads. Television hurt newspa- pers; the Internet hurt them both. When old industries fight or ignore new technologies, they decline. Tower Records, Borders, and others had ample warning they would be hurt by Internet downloads; their failure to respond led to their liquidation. In some cases, innovation's long-run consequences are not fully foreseeable. Cell phones, video games, and the Internet allow people to stay in touch with each other and plugged in with current events but also reduce attention to traditional media as well as face-to-face social interaction as people listen to music or watch a movie on their cell phones. Marketers should monitor the following technology trends: the accelerating pace of change, unlimited opportu- nities for innovation, varying R&D budgets, and increased regulation of technological change. acceleraTinG Pace of chanGe More ideas than ever are in the works, and the time between idea and implementation is shrinking. In the first two-and-a-half years of the iPad's existence, Apple sold a staggering 97 million units worldwide.47 In many markets, the next technological breakthrough seems right around the corner, unliMiTed oPPorTuniTies for innovaTion Consider just a few remarkable openings. Medical researchers hope to use stem cells for organ generation and hybrid positron emission tomography (PET) and magnetic resonance imaging (MRI) to dramatically improve diagnosis. Environmental researchers are exploring plasma arc waste disposal to harness lightning and turn garbage into glass or a gaseous energy source. They are Seventh Generation offers a range of household products for environmentally conscious consumers. So ur ce : A nd re w H . W al ke r/ G et ty I m ag es ColleCTing infoRMATion And foReCAsTing deMAnd | chapter 3 83 developing desalination methods to safely and economically remove salt from ocean water and make it drinkable. Neuroscientists are studying how to harness brain signals via electroencephalography (EEG) as well as how to construct a "thinking" DNA neural network that can answer questions correctly.48 varyinG r&d budGeTs The United States is the world leader in R&D, spending $436 billion in 2012. Its advantage in innovation comes from all sectors—government-funded research from the National Aeronautics and Space Administration (NASA) and National Institutes of Health (NIH); top academic institutions such as Johns Hopkins University, University of Michigan, and the University of Wisconsin; and corporations such as Merck, Pfizer, Intel, and Microsoft. A growing portion of U.S. R&D, however, goes to the development side, not research, raising concerns about whether the United States can maintain its lead in basic science. Too many companies seem to be putting their money into copying competitors' products with minor improvements. Other countries are not standing still either. China, Israel, and Finland all are beginning to spend a larger percentage of their GDP on R&D than the United States.49 increased reGulaTion of TechnoloGical chanGe Government has expanded its agencies' powers to investigate and ban potentially unsafe products. Safety and health regulations have increased for food, automobiles, clothing, electrical appliances, and construction. Consider the Food and Drug Administration (FDA).50 the FDa The FDA plays a critical public health role, overseeing a wide range of products. Here is its specific charge: FDA is responsible for protecting the public health by assuring the safety, efficacy and security of human and veterinary drugs, biological products, medical devices, our nation's food supply, cosmetics, and products that emit radiation. FDA is also responsible for advancing the public health by helping to speed innovations that make medicines more effective, safer, and more affordable and by helping the public get the accurate, science-based informa- tion they need to use medicines and foods to maintain and improve their health. FDA also has responsibility for regulating the manufacturing, marketing and distribution of tobacco products to protect the public health and to reduce tobacco use by minors. Finally, FDA plays a significant role in the Nation's counterterrorism capability. FDA fulfills this responsibil- ity by ensuring the security of the food supply and by fostering development of medical products to respond to deliberate and naturally emerging public health threats. The FDA's level of enforcement has varied some through the years, in part depending on the political administration. It can also vary by product or industry. Congress recently empowered the FDA to place new restrictions on the prescrib- ing, distribution, sale, and advertising of proposed new drugs. The FDA looks at the safety and efficacy of any proposed new drug, but also additional considerations such as the integrity of the global manufacturing chain that makes it, post- marketing studies as a condition of approval, and demonstrable superiority over existing therapies. The POlITICal-leGal envIrOnmenT The political and legal environment consists of laws, government agencies, and pressure groups that influence organizations and individuals. Sometimes these create new business opportunities. Mandatory recycling laws boosted the recycling industry and launched dozens of new companies making products from recycled materials. On the other hand, overseas governments can impose laws or take actions that create uncertainty and even con- fusion for companies. Political instability in certain Middle Eastern and African nations has created much risk for oil firms and others. Two major trends are increased business legislation and the growth of special-interest groups.51 increased business leGislaTion Business legislation is intended to protect companies from unfair competition, protect consumers from unfair business practices, protect society from unbridled business behavior, 84 PART 2 | CAPTuRing MARkeTing insighTs and charge businesses with the social costs of their products or production processes. Each new law may also have the unintended effect of sapping initiative and slowing growth. The European Commission has established new laws covering competitive behavior, product standards, prod- uct liability, and commercial transactions for the 28 member nations of the European Union. The United States has many consumer protection laws covering competition, product safety and liability, fair trade and credit practices, and packaging and labeling, but many countries' laws are stronger.52 Norway bans several forms of sales promotion—trading stamps, contests, and premiums—as inappropriate or unfair. Many countries throughout the world ban or severely restrict comparative advertising. Thailand requires food processors selling national brands to also market low-price brands so low-income consumers will be served. In India, food companies need special approval to launch duplicate brands, such as another cola drink or brand of rice. GroWTh of sPecial-inTeresT GrouPs Political action committees (PACs) lobby government officials and pressure business executives to respect the rights of consumers, women, senior citizens, minorities, and gays and lesbians. Insurance companies directly or indirectly influence the design of smoke detectors; scientific groups affect the design of spray products. Many companies have established public affairs departments to deal with such special-interest groups. The consumerist movement organized citizens and government to strengthen the rights and powers of buy- ers in relationship to sellers. Consumerists have won the right to know the real cost of a loan, the true cost per standard unit of competing brands (unit pricing), the basic ingredients and true benefits of a product, and the nutritional quality and freshness of food. Privacy issues and identity theft will remain public policy hot buttons as long as consumers are willing to swap personal information for customized products—from marketers they trust.53 Consumers worry that they will be robbed or cheated; that private information will be used against them; that they will be bombarded by solicita- tions; and that children will be targeted by ads. Online privacy greatly concerns consumers and regulators alike. Technology now enables firms to collect all kinds of information.54 Make no mistake, your personal data isn't your own. When you update your Facebook page, "Like" some- thing on a website, apply for a credit card, click on an ad, listen to an MP3, or comment on a YouTube video, you are feeding a huge and growing beast with an insatiable appetite for your personal data, a beast that always craves more. Virtually every piece of personal information that you provide online (and much that you provide offline) will end up being bought and sold, segmented, packaged, analyzed, repackaged, and sold again. "Marketing Insight: Watching Out for Big Brother" describes some of the data collection practices and privacy concerns that have arisen with widespread Internet adoption and use. Political unrest in the Middle East was a major cause for concern for many large multinational firms So ur ce : © G eo rg e H en to n/ A la m y ColleCTing infoRMATion And foReCAsTing deMAnd | chapter 3 85 Forecasting and Demand Measurement Understanding the marketing environment and conducting marketing research (described in Chapter 4) can help to identify marketing opportunities. The company must then measure and forecast the size, growth, and profit potential of each new opportunity. Sales forecasts prepared by marketing are used by finance to raise cash for investment and operations; by manufacturing to establish capacity and output; by purchasing to acquire the right amount of supplies; and by human resources to hire the needed workers. If the forecast is off the mark, the com- pany will face excess or inadequate inventory. Because it's based on estimates of demand, managers need to define what they mean by market demand. DuPont's Performance Materials group knew that even when DuPont Tyvek had 70 percent of the $100 million market for air-barrier membranes, there was greater opportunity with more products and services to tap into the entire multi-billion-dollar U.S. home construction market.55 Can online data profiling go too far? New parents are highly lucra- tive customers, but with birth records public, a slew of companies all discover them at the same time. To beat them to the punch, Target studied the buying histories of women who signed up for new-baby registries at the store and found many bought large amounts of vitamin supplements during their first trimester and unscented lotion around the start of their second trimester. Target then used these purchase markers to identify women of child-bearing age who were likely to be pregnant and sent them offers and coupons for baby products timed to the stages of pregnancy and later baby needs. When the practice became known, however, some criticized the company's tactics, which had occasionally been the means of letting family members know someone in the house was expecting. Target responded by including the offers with others unrelated to pregnancy, and sales in the pro- moted pregnancy-related categories soared. This episode vividly illustrates the power of database management in an Internet era, as well as the worries it can create among consum- ers. Politicians and government officials are discussing a "Do Not Track" option for consumers online (like the "Do Not Call" option for unsolicited phone calls). Although it is not clear how quickly legislation can be put into place, an online privacy bill that strengthens consumer rights seems inevitable. One member of the Federal Trade Commission, Julie Brill, feels data brokers should have to tell the public what data they collect, how they collect them, with whom they share them, and how they are used. Sources: Avi Goldfarb and Catherine Tucker, "Shifts in Privacy Concerns," American Economic Review: Papers & Proceedings 102, no. 3 (2012), pp. 349–53; Avi Goldfarb and Catherine Tucker, "Online Display Advertising: Targeting and Obtrusiveness," Marketing Science 30 (May–June 2011), pp. 389–404, plus com- mentaries and rejoinder; Alessandro Acquisti, Leslie John, and George Loewenstein, "The Impact of Relative Judgments on Concern about Privacy," Journal of Marketing Research 49 (April 2012), pp. 160–74; Mark Sullivan, "Data Snatchers! The Booming Market for Your Online Identity," PC World, June 26, 2012; Charles Duhigg, "How Companies Learn Your Secrets," New York Times, February 16, 2012; Joshue Topolsky, "Online Tracking Is Shady—but It Doesn't Have to Be," Washington Post, December 11, 2011; Natasha Singer, "You for Sale: Mapping, and Sharing, the Consumer Genome," New York Times, June 16, 2012; Natasha Singer, "Consumer Data, but Not for Consumers," New York Times, July 21, 2012; Doc Searls, "The Customer as a God," Wall Street Journal, July 20, 2012. marketing insight Watching Out for Big Brother The explosion of digital data created by individuals online can nearly all be collected, bought, and sold by the personal data economy, including "advertisers, marketers, ad networks, data brokers, web- site publishers, social networks, and online tracking and targeting companies." Companies know or can find your age, race, gender, height, weight, marital status, education level, political affiliation, buying habits, hobbies, health, financial concerns, vacation dreams, and more. The thought of such widespread transparency worries con- sumers. Research shows more people, especially older consumers, are refusing to reveal private information online. At the same time, consumers are accepting more privacy intrusions every day, perhaps because they don't realize what information they are giving out, don't feel they have a choice, or don't think it will really matter. Many don't realize, for example, that buried in the fine print of their agreement to buy a new smart phone may be authorization to allow third-party services to track their every move. One such firm, Carrier IQ, received permission from any purchaser of an EVO 3D HTC smart phone to see every call made and when, where text messages were sent, and which Web sites were visited. Unfortunately, once data have been col- lected online, they can end up in unexpected places, resulting in spam or worse. Consumers increasingly want to know where, when, how, and why they are being watched online. Another data tracking firm is Acxion, which maintains a database on about 190 million U.S. individuals and 126 million households. Its 23,000 servers process 50 trillion data transactions a year as it attempts to assemble "360-degree views" of consumers from offline, online, and mobile sources. Its customers have included banks like Wells Fargo and HSBC, investment services like E*TRADE, automakers like Toyota and Ford, and department stores like Macy's. 86 PART 2 | CAPTuRing MARkeTing insighTs The meaSureS Of markeT demand Companies can prepare as many as 90 different types of demand estimates for six different product levels, five space levels, and three time periods (see Figure 3.1). Each serves a specific purpose. A company might forecast short-run demand to order raw materials, plan production, and borrow cash. It might forecast regional demand to decide whether to set up regional distribution. There are many productive ways to break down the market: • The potential market is the set of consumers with a sufficient level of interest in a market offer. However, their interest is not enough to define a market unless they also have sufficient income and access to the product. • The available market is the set of consumers who have interest, income, and access to a particular offer. The company or government may restrict sales to certain groups; a state might ban motorcycle sales to anyone under 21. Eligible adults constitute the qualified available market—the set of consumers who have interest, income, access, and qualifications for the market offer. Target was criticized by some for its over-zealous targeting of expecting mothers. So ur ce : B lo om be rg v ia G et ty I m ag es Space Level Product Level World U.S.A. Region Territory Customer All sales Industry sales Company sales Product line sales Product form sales Product item sales Short run Medium run Long run Time Level | Fig. 3.1 | Ninety Types of Demand Measurement (6 × 5 × 3) ColleCTing infoRMATion And foReCAsTing deMAnd | chapter 3 87 • The target market is the part of the qualified available market the company decides to pursue. The company might concentrate its marketing and distribution effort on the East Coast. • The penetrated market is the set of consumers who are buying the company's product. These definitions are a useful tool for market planning. If the company isn't satisfied with its current sales, it can try to attract a larger percentage of buyers from its target market. It can lower the qualifications for potential buy- ers. It can expand its available market by opening distribution elsewhere or lowering its price, or it can reposition itself in the minds of its customers. a vOCabularY fOr demand meaSuremenT The major concepts in demand measurement are market demand and company demand. Within each, we distin- guish among a demand function, a sales forecast, and a potential. MarkeT deMand The marketer's first step in evaluating marketing opportunities is to estimate total market demand. Market demand for a product is the total volume that would be bought by a defined customer group in a defined geographical area in a defined time period in a defined marketing environment under a defined marketing program. Market demand is not a fixed number, but rather a function of the stated conditions. For this reason, we call it the market demand function. Its dependence on underlying conditions is illustrated in Figure 3.2(a). The hori- zontal axis shows different possible levels of industry marketing expenditure in a given time period. The vertical axis shows the resulting demand level. The curve represents the estimated market demand associated with vary- ing levels of marketing expenditure. Some base sales—called the market minimum and labeled Q1 in the figure—would take place without any demand-stimulating expenditures. Higher marketing expenditures would yield higher levels of demand, first at an increasing rate, then at a decreasing rate. Take fruit juices. Given the indirect competition they face from other types of beverages, we would expect increased marketing expenditures to help fruit juice products stand out and increase demand and sales. Marketing expenditures beyond a certain level would not stimulate much further demand, suggesting an upper limit called the market potential and labeled Q2 in the figure. The distance between the market minimum and the market potential shows the overall marketing sensitivity of demand. We can think of two extreme types of markets, the expansible and the nonexpansible. An expansible market, such as the market for racquetball playing, is very much affected in size by the level of industry market- ing expenditures. In terms of Figure 3.2(a), the distance between Q1 and Q2 is relatively large. A nonexpansible market—for example, the market for weekly trash or garbage removal—is not much affected by the level of marketing expenditures; the distance between Q1 and Q2 is relatively small. Organizations selling in a nonex- pansible market must accept the market's size—the level of primary demand for the product class—and direct their efforts toward winning a larger market share for their product, that is, a higher level of selective demand for their product. It pays to compare the current and potential levels of market demand. The result is the market-penetration index. A low index indicates substantial growth potential for all the firms. A high index suggests it will be (a) Marketing Demand as a Function of Industry Marketing Expenditure (assumes a particular marketing environment) (b) Marketing Demand as a Function of Industry Marketing Expenditure (two different environments assumed) Industry Marketing ExpenditureM ar ke t D em an d in th e Sp ec ifi c Pe rio d M ar ke t D em an d in th e Sp ec ifi c Pe rio d Industry Marketing Expenditure Market potential (prosperity) Market potential, Q2 Market forecast, QF Market minimum, Q1 Market potential (recession)Planned expenditure Prosperity Recession | Fig. 3.2 | Market Demand Functions 88 PART 2 | CAPTuRing MARkeTing insighTs expensive to attract the few remaining prospects. Generally, price competition increases and margins fall when the market-penetration index is already high. Comparing current and potential market shares yields a firm's share-penetration index. If this index is low, the company can greatly expand its share. Holding it back could be low brand awareness, low availability, benefit deficiencies, or high price. A firm should calculate the share-penetration increases from removing each factor to see which investments produce the greatest improvement.56 Remember that the market demand function is not a picture of market demand over time. Rather, it shows alternate current forecasts of market demand associated with possible levels of industry marketing effort. MarkeT forecasT Only one level of industry marketing expenditure will actually occur. The market demand corresponding to this level is called the market forecast. MarkeT PoTenTial The market forecast shows expected market demand, not maximum market demand. For the latter, we need to visualize the level of market demand resulting from a very high level of industry marketing expenditure, where further increases in marketing effort would have little effect. Market potential is the limit approached by market demand as industry marketing expenditures approach infinity for a given marketing environment. The phrase "for a given market environment" is crucial. Consider the market potential for automobiles. It's higher during prosperity than during a recession, as illustrated in Figure 3.2(b). Market analysts distinguish between the position of the market demand function and movement along it. Companies cannot do any- thing about the position of the market demand function, which is determined by the marketing environment. However, they influence their particular location on the function when they decide how much to spend on marketing. Companies interested in market potential have a special interest in the product-penetration percentage, the percentage of ownership or use of a product or service in a population. The lower the product-penetration percentage, the higher the market potential, although this also assumes everyone will eventually be in the market for every product. coMPany deMand Company demand is the company's estimated share of market demand at alternative levels of company marketing effort in a given time period. It depends on how the company's products, services, prices, and communications are perceived relative to the competitors'. Other things equal, the company's market share depends on the relative scale and effectiveness of its market expenditures. As noted previously, marketing model builders have developed sales response functions to measure how a company's sales are affected by its marketing expenditure level, marketing mix, and marketing effectiveness.57 coMPany sales forecasT Once marketers have estimated company demand, their next task is to choose a level of marketing effort. The company sales forecast is the expected level of company sales based on a chosen marketing plan and an assumed marketing environment. We represent the company sales forecast graphically with sales on the vertical axis and marketing effort on the horizontal axis, as in Figure 3.2. We often hear that the company should develop its marketing plan on the basis of its sales forecast. This forecast-to-plan sequence is valid if forecast means an estimate of national economic activity or if company demand is nonexpansible. The sequence is not valid, however, where market demand is expansible or where forecast means an estimate of company sales. The company sales forecast does not establish a basis for deciding what to spend on marketing. On the contrary, the sales forecast is the result of an assumed marketing expenditure plan. Two other concepts are important here. A sales quota is the sales goal set for a product line, company division, or sales representative. It is primarily a managerial device for defining and stimulating sales effort, often set slightly higher than estimated sales to stretch the sales force's effort. A sales budget is a conservative estimate of the expected volume of sales, primarily for making current purchasing, production, and cash flow decisions. It's based on the need to avoid excessive risk and is generally set slightly lower than the sales forecast. coMPany sales PoTenTial Company sales potential is the sales limit approached by company demand as company marketing effort increases relative to that of competitors. The absolute limit of company demand is, of course, the market potential. The two would be equal if the company captured 100 percent of the market. In most cases, company sales potential is less than the market potential, even when company marketing expenditures increase considerably. Each competitor has a hard core of loyal buyers unresponsive to other companies' efforts to woo them. ColleCTing infoRMATion And foReCAsTing deMAnd | chapter 3 89 eSTImaTInG CurrenT demand We are now ready to examine practical methods for estimating current market demand. Marketing executives want to estimate total market potential, area market potential, and total industry sales and market shares. ToTal MarkeT PoTenTial Total market potential is the maximum sales available to all firms in an industry during a given period, under a given level of industry marketing effort and environmental conditions. A common way to estimate total market potential is to multiply the potential number of buyers by the average quantity each purchases and then by the price. If 100 million people buy books each year and the average book buyer buys three books a year at an average price of $20 each, then the total market potential for books is $6 billion (100 million × 3 × $20). The most difficult component to estimate is the number of buyers. We can always start with the total population in the nation, say, 314 million people. Next we eliminate groups that obviously would not buy the product. Assume illiterate people and children under 12 don't buy books and constitute 20 percent of the population. This means 80 percent of the population, or 251 million people, is in the potential pool. Further research might tell us that people of low income and low education rarely buy books, and they constitute more than 30 percent of the potential pool. Eliminating them, we arrive at a prospect pool of approximately 175.7 million book buyers. We use this number to calculate total market potential. A variation on this method is the chain-ratio method, which multiplies a base number by several adjusting percentages. Suppose a brewery is interested in estimating the market potential for a new light beer especially designed to accompany food. It can make an estimate with the following calculation: Demand for the new light beer = Population * Personal discretionary income per capita * Average percentage of discretionary income spent on food * Average percentage of amount spent on food that is spent on beverages * Average percentage of amount spent on beverages that is spent on alcoholic beverages * Average percentage of amount spent on alcoholic beverages that is spent on beer * Expected percentage of amount spent on beer that will be spent on light beer area MarkeT PoTenTial Because companies must allocate their marketing budget optimally among their best territories, they need to estimate the market potential of different cities, states, and nations. Two major methods are the market-buildup method, used primarily by business marketers, and the multiple-factor index method, used primarily by consumer marketers. Market-Buildup Method The market-buildup method calls for identifying all the potential buyers in each market and estimating their potential purchases. It produces accurate results if we have a list of all potential buyers and a good estimate of what each will buy. Unfortunately, this information is not always easy to gather. Consider a machine-tool company that wants to estimate the area market potential for its wood lathe in the Boston area. Its first step is to identify all potential buyers of wood lathes in the area, primarily manufacturing establishments that shape or ream wood as part of their operations. The company could compile a list from a directory of all manufacturing establishments in the area. Then it could estimate the number of lathes each industry might purchase, based on the number of lathes per thousand employees or per $1 million of sales in that industry. An efficient method of estimating area market potentials makes use of the North American Industry Classification System (NAICS), developed by the U.S. Bureau of the Census in conjunction with the Canadian and Mexican gov- ernments.58 The NAICS classifies all manufacturing into 20 major industry sectors and further breaks each sector into a six-digit, hierarchical structure as follows. 51 Industry sector (information) 513 Industry subsector (broadcasting and telecommunications) 5133 Industry group (telecommunications) 51332 Industry (wireless telecommunications carriers, except satellite) 513321 National industry (U.S. paging) 90 PART 2 | CAPTuRing MARkeTing insighTs For each six-digit NAICS number, a company can purchase business directories that provide complete com- pany profiles of millions of establishments, subclassified by location, number of employees, annual sales, and net worth. To use the NAICS, the lathe manufacturer must first determine the six-digit NAICS codes that represent products whose manufacturers are likely to require lathe machines. To get a full picture of these, the company can (1) identify past customers' NAICS codes; (2) go through the NAICS manual and check off all the six- digit industries that might have an interest in lathes; and (3) mail questionnaires to a wide range of companies inquiring about their interest in wood lathes. The company's next task is to select an appropriate base for estimating the number of lathes each industry will use. Suppose customer industry sales are the most appropriate base. Once the company estimates the rate of lathe ownership relative to the customer industry's sales, it can compute the market potential. Multiple-Factor Index Method Like business marketers, consumer companies also need to estimate area market potentials, but because their customers are too numerous to list, they commonly use a straightforward index. A drug manufacturer might assume the market potential for drugs is directly related to population size. If the state of Virginia has 2.55 percent of the U.S. population, Virginia might be a market for 2.55 percent of total drugs sold. A single factor is rarely a complete indicator of sales opportunity. Regional drug sales are also influenced by per capita income and the number of physicians per 10,000 people. Thus, it makes sense to develop a multiple- factor index and assign each factor a specific weight. Suppose Virginia has 2.00 percent of U.S. disposable per- sonal income, 1.96 percent of U.S. retail sales, and 2.28 percent of U.S. population, and the respective weights for these factors are 0.5, 0.3, and 0.2. The buying-power index for Virginia is then 2.04 [0.5(2.00) + 0.3(1.96) + 0.2(2.28)]. Thus, 2.04 percent of the nation's drug sales (not 2.28 percent) might be expected to take place in Virginia. The weights in the buying-power index are somewhat arbitrary, and companies can assign others if appro- priate. A manufacturer might adjust the market potential for additional factors, such as competitors' presence, local promotional costs, seasonal factors, and market idiosyncrasies. Many companies compute area indexes to allocate marketing resources. Suppose the drug company is review- ing the six cities listed in Table 3.5. The first two columns show its percentage of U.S. brand and category sales in these six cities. Column 3 shows the brand development index (BDI), the index of brand sales to category sales. Seattle has a BDI of 114 because the brand is relatively more developed than the category in Seattle. Portland's BDI is 65, which means the brand is relatively underdeveloped there. Normally, the lower the BDI, the higher the market opportunity, in that there is room to grow the brand. Other marketers would argue instead that marketing funds should go into the brand's strongest markets, where it might be important to reinforce loyalty or more easily capture additional brand share. Investment decisions should be based on the potential to grow brand sales. Table 3.5 Calculating the Brand Development Index (BDI) (a) Percent of U.S. Brand (b) Percent of U.S. Category BDI Territory Sales Sales (a ÷ b) × 100 Seattle 3.09 2.71 114 Portland 6.74 10.41 65 Boston 3.49 3.85 91 Toledo .97 .81 120 Baltimore 3.12 3.00 104 ColleCTing infoRMATion And foReCAsTing deMAnd | chapter 3 91 Feeling it was underperforming in a high-potential market, Anheuser-Busch targeted the growing Hispanic population in Texas with a number of special marketing activities. Cross-promotions with Budweiser and Clamato tomato clam cocktail (to mix the popular Michilada drink), sponsorship of the Esta Noche Toca concert series, and support of Latin music acts with three-on-three soccer tournaments helped drive higher sales. Anheuser-Busch later introduced Chelada with pre-mixed Budweiser or Bud Light and Clamato.59 After the company decides on the city-by-city allocation of its budget, it can refine each allocation down to census tracts or zip+4 code centers. Census tracts are small, locally defined statistical areas in metropolitan areas and some other counties. They generally have stable boundaries and a population of about 4,000. Zip+4 code cen- ters (designed by the U.S. Postal Service) are a little larger than neighborhoods. Data on population size, median family income, and other characteristics are available for these geographical units. Using other sources such as loyalty card data, Mediabrands's Geomentum targets "hyper-local" sectors of zip codes, city blocks, and even individual households with ad messages delivered via interactive TV, zoned editions of newspapers, Yellow Pages, outdoor media, and local Internet searches.60 indusTry sales and MarkeT shares Besides estimating total potential and area potential, a company needs to know the actual industry sales taking place in its market. This means identifying competitors and estimating their sales. The industry trade association will often collect and publish total industry sales, although it usually does not list individual company sales separately. With this information, however, each company can evaluate its own perfor- mance against the industry's. If a company's sales are increasing by 5 percent a year and industry sales are increas- ing by 10 percent, the company is losing its relative standing in the industry. Another way to estimate sales is to buy reports from a marketing research firm that audits total sales and brand sales. Nielsen Media Research audits retail sales in various supermarket and drugstore product categories. A com- pany can purchase this information and compare its performance to the total industry or any competitor to see whether it is gaining or losing share, overall or brand by brand. Because distributors typically will not supply infor- mation about how much of competitors' products they are selling, business-to-business marketers operate with less knowledge of their market share results. eSTImaTInG fuTure demand The few products or services that lend themselves to easy forecasting generally enjoy an absolute level or a fairly constant trend and competition that is either nonexistent (public utilities) or stable (pure oligopolies). In most markets, in contrast, good forecasting is a key factor in success. Companies commonly prepare a macroeconomic forecast first, followed by an industry forecast, followed by a company sales forecast. The macroeconomic forecast projects inflation, unemployment, interest rates, Marketers can now target consumers right down to their zip code, neighborhood, or individual households. So ur ce : © a le xm is u/ Sh ut te rs to ck 92 PART 2 | CAPTuRing MARkeTing insighTs consumer spending, business investment, government expenditures, net exports, and other variables. The end result is a forecast of gross domestic product (GDP), which the firm uses, along with other environmental indicators, to forecast industry sales. The company derives its sales forecast by assuming it will win a certain market share. How do firms develop forecasts? They may create their own or buy forecasts from outside sources such as marketing research firms, which interview customers, distributors, and other knowledgeable parties. Specialized forecasting firms produce long-range forecasts of particular macroenvironmental components, such as popu- lation, natural resources, and technology. Examples are IHS Global Insight (a merger of Data Resources and Wharton Econometric Forecasting Associates), Forrester Research, and the Gartner Group. Futurist research firms such as the Institute for the Future, Hudson Institute, and the Futures Group produce speculative scenarios. All forecasts are built on one of three information bases: what people say, what people do, or what people have done. Using what people say requires surveying buyers' intentions, composites of sales force opinions, and expert opinion. Building a forecast on what people do means putting the product into a test market to measure buyer response. To use the final basis—what people have done—firms analyze records of past buying behavior or use time-series analysis or statistical demand analysis. survey of buyers' inTenTions Forecasting is the art of anticipating what buyers are likely to do under a given set of conditions. For major consumer durables such as appliances, research organizations conduct periodic surveys of consumer buying intentions, ask questions like Do you intend to buy an automobile within the next six months?, and put the answers on a purchase probability scale: 0.00 0.20 0.40 0.60 0.80 1.00 No Slight Fair Good High Certain chance possibility possibility possibility probability Surveys also inquire into consumers' present and future personal finances and expectations about the economy. They combine bits of information into a consumer confidence measure (Conference Board) or a consumer senti- ment measure (Survey Research Center of the University of Michigan). For business buying, research firms can carry out buyer-intention surveys for plant, equipment, and materials, usually falling within a 10 percent margin of error. These surveys are useful in estimating demand for industrial products, consumer durables, product purchases where advanced planning is required, and new products. Their value increases to the extent that buyers are few, the cost of reaching them is low, and they have clear intentions they willingly disclose and implement. coMPosiTe of sales force oPinions When interviewing buyers is impractical, the company may ask its sales representatives to estimate their future sales. Few companies use these estimates without making some adjustments, however. Sales representatives might be pessimistic or optimistic, they might not know how their company's marketing plans will influence future sales in their territory, and they might deliberately underestimate demand so the company will set a low sales quota. To encourage better estimating, the company could offer incentives or assistance, such as information about marketing plans or past forecasts compared with actual sales. Sales force forecasts do yield a number of benefits. Sales reps might have better insight into developing trends than any other group, and forecasting might give them greater confidence in their sales quotas and more incentive to achieve them. A "grassroots" forecasting procedure provides detailed estimates broken down by product, terr- tory, customer, and sales rep. exPerT oPinion Companies can also obtain forecasts from experts, including dealers, distributors, suppliers, marketing consultants, and trade associations. Dealer estimates are subject to the same strengths and weaknesses as sales force estimates. Many companies buy economic and industry forecasts from well-known economic-forecasting firms that have more data available and more forecasting expertise. Occasionally, companies will invite a group of experts to prepare a forecast. The experts exchange views and produce an estimate as a group (group-discussion method) or individually, in which case another analyst might combine the results into a single estimate (pooling of individual estimates). Further rounds of estimating and refin- ing follow (the Delphi method).61 ColleCTing infoRMATion And foReCAsTing deMAnd | chapter 3 93 Summary 1. To carry out their analysis, planning, implementation, and control responsibilities, marketing managers need a marketing information system (MIS) to assess infor- mation needs, develop the needed information, and dis- tribute it in a timely manner. 2. An MIS has three components: (a) an internal records system, which includes information about the order- to-payment cycle and sales information systems; (b) a marketing intelligence system, a set of procedures to obtain everyday information about the marketing en- vironment; and (c) a marketing research system that allows for the systematic design, collection, analysis, and reporting of data and findings relevant to a specific marketing situation. 3. Marketers find many opportunities by identifying trends (directions or sequences of events that have some momentum and durability) and megatrends (major social, economic, political, and technological changes that have long-lasting influence). 4. Within the rapidly changing global picture, marketers must monitor six major environmental forces: demo- graphic, economic, social-cultural, natural, technologi- cal, and political-legal. 5. In the demographic environment, marketers must be aware of worldwide population growth; changing mixes of age, ethnic composition, and educational levels; the rise of nontraditional families; and large geographic shifts in population. 6. In the economic arena, marketers need to focus on income distribution and levels of savings, debt, and credit availability. 7. In the social-cultural arena, marketers must understand people's views of themselves, others, organizations, society, nature, and the universe. Their products must correspond to society's core and secondary values and address the needs of different subcultures within a society. 8. Acknowledging the public's increased concern about the health of the natural environment, marketers are embrac- ing sustainability and green marketing programs. 9. In the technological arena, marketers should take account of the accelerating pace of technological change, opportunities for innovation, varying R&D budgets, and the increased governmental regulation brought about by technological change. 10. In the political-legal environment, marketers must work within the many laws regulating business practices and with various special-interest groups. 11. To estimate current demand, companies attempt to determine total market potential, area market potential, industry sales, and market share. To estimate future demand, companies survey buyers' intentions, solicit their sales force's input, gather expert opinions, analyze past sales, or engage in market testing. Mathematical models, advanced statistical techniques, and comput- erized data collection procedures are essential to all types of demand and sales forecasting. MyMarketingLab Go to mymktlab.com to complete the problems marked with this icon as well as for additional auto-graded and assisted-graded writing questions. PasT-sales analysis Firms can develop sales forecasts on the basis of past sales. Time-series analysis breaks past time series into four components (trend, cycle, seasonal, and erratic) and projects them into the future. Exponential smoothing projects the next period's sales by combining an average of past sales and the most recent sales, giving more weight to the latter. Statistical demand analysis measures the impact of a set of causal factors (such as income, marketing expenditures, and price) on the sales level. Finally, econometric analysis builds sets of equations that describe a system and statistically derives the different parameters that make up the equations statistically. MarkeT-TesT MeThod When buyers don't plan their purchases carefully or experts are unavailable or unreliable, a direct-market test can help forecast new-product sales or established product sales in a new distribution channel or territory. (We discuss market testing in detail in Chapter 15.) 94 PART 2 | CAPTuRing MARkeTing insighTs Applications Marketing Debate Is Consumer Behavior More a Function of a Person's Age or Generation? How much do consumers change over time? Some market- ers who target certain age groups maintain that age differenc- es are critical and that the needs and wants of a 25-year-old in 2015 are not that different from those of a 25-year-old in 1980. Others argue that cohort and generation effects are critical and that marketing programs must therefore suit the times. Take a position: Age differences are fundamentally more important than cohort effects versus Cohort effects can dominate age differences. Marketing Discussion Age Targeting What brands and products do you feel successfully speak to you and effectively target your age group? Why? Which ones do not? What could they do better? Microsoft Windows and Office the must-have software of its day. The 1998 slogan "Where Do You Want to Go Today?" promoted individual Microsoft products like Windows 98 but rather the company itself, commun- icating that Microsoft could help improve computer users' lives. During the mid-1990s, Microsoft entered the Internet browser market. The company's new Internet Explorer, initially viewed as the underdog, and Microsoft's position as its dominant rival, Netscape's flagship product Netscape had in its 1995 Navigator browser, Microsoft launched its own, Internet Explorer late the same year. By 1997, Explorer had grabbed 18 percent of the market. Over the next five years, Microsoft took three major steps to overtake Netscape. First, it bundled Internet Explorer with its Office product, which included Excel, Word, and PowerPoint. This meant that consumers who wanted MS Office automatically became Internet Explorer users as well. Second, Microsoft partnered with AOL, which opened the doors to 5 million new consum- ers almost overnight. Third, Microsoft used its deep pockets to ensure that Internet Explorer was available free, essentially "cutting off Netscape's air supply." By 2002, Netscape's market share had fallen to a meek 4 percent. Microsoft's fight to become the browser leader was not without controversy; some perceived that the company was monopolizing the industry. As a result, Microsoft faced antitrust charges in 1998 and numerous lawsuits based on its marketing tactics. Charges aside, the company's stock took off, peaking in 1999 at $60 per share. Microsoft continued to release new products, including Windows 2000 in 2000 and Windows XP in 2001. It also launched Xbox in 2001, marking its entrance into the multibillion-dollar gaming industry. Marketing Excellence >> Microsoft Microsoft is the world's most successful software com- pany. Bill Gates and Paul Allen founded it in 1975 with the original mission of having "a computer on every desk and in every home, running Microsoft software." Today, Microsoft is the fifth most valuable company in the world and has a brand value of $61.2 billion. In the early 1980s, Microsoft developed the DOS operating system for IBM computers. The company lev- eraged this initial success to sell software to other manu- facturers, quickly becoming a major player in the industry. Initial advertising efforts communicated the company's range of products, from DOS to Excel and Windows, and unified them under the Microsoft brand. Microsoft went public in 1986 and grew tremen- dously over the next decade as the Windows operating system and Microsoft Office took off. In 1990, Microsoft launched Windows 3.0, a completely revamped version of its operating system, including applications like File Manager and Program Manager that are still used today. It was an instant success; Microsoft sold more than 10 million copies of the software within two years, a phe- nomenal accomplishment in those days. In addition, Windows 3.0 became the first operating system to be preinstalled on certain PCs, marking another major mile- stone for the industry and for Microsoft. Throughout the 1990s, Microsoft's communica- tion efforts convinced businesses not only that its software was the most effective but also that it should be upgraded frequently. Microsoft spent millions in magazine advertising and received endorsements from the top computer magazines in the industry, making ColleCTing infoRMATion And foReCAsTing deMAnd | chapter 3 95 After the recession came to an end, Microsoft's image and stock started to recover, thanks to the success of its retail stores, effective marketing, and a wide range of new product launches. Microsoft went after Google's domi- nant position in the search marketplace, for instance, with a search engine called Bing, and it entered the growing mobile industry with its Windows Phone mobile operat- ing system. The company's 2011 expansion into smart phones surprised many analysts, but Microsoft hoped the smart phone and Windows Phone mobile OS would forge a strong connection with its consumers around the world. It continued its innovation momentum in 2012 with the launch of Windows 8, Windows 8 Phone, and a computer called Surface Tablet. The tablet impressed consumers with a detachable keyboard that also served as its protective cover. Today, Microsoft offers a wide range of software, mobile, and home entertainment products. Its most prof- itable products continue to be Microsoft Windows and Microsoft Office, which bring in approximately 80 percent of its $86 billion in annual revenue. Questions 1. Evaluate Microsoft's product and marketing evolution over the years. What has the company done well, and where did it falter? 2. Evaluate Microsoft's recent expansions into areas such as search engines and smart phones. Do you think those are good areas of growth for Microsoft? Why or why not? Sources: Interbrand, "2014 Best Global Brands Report," www.interbrand.com; Stuart Elliot, "Microsoft Takes a User-Friendly Approach to Selling Its Image in a New Global Campaign," New York Times, November 11, 1994; "Todd Bishop, "The Rest of the Motto," Seattle Post Intelligencer, September 23, 2004; Devin Leonard, "Hey PC, Who Taught You to Fight Back?" New York Times, August 30, 2009; Suzanne Vranica and Robert A. Guth, "Microsoft Enlists Jerry Seinfeld in Its Ad Battle Against Apple," Wall Street Journal, August 21, 2008, p. A1; Stuart Elliott, "Echoing the Campaign of a Rival, Microsoft Aims to Redefine 'I'm a PC,'" New York Times, September 18, 2008, p. C4; John Furguson, "From Cola Wars to Computer Wars—Microsoft Misses Again," BN Branding, April 4, 2009; Microsoft press release, "Microsoft Retail Stores Maturation: Going Behind the Scenes," November 8, 2012. Over the next several years, Microsoft's stock price tumbled by more than $40 a share as consumers waited for the next operating system to be released. During this time, Apple made a strong comeback with consumer- friendly products like Mac computers, iPods, iPhones, and iTunes. Apple also launched a successful market- ing campaign titled "Get a Mac" that featured a smart, creative, easygoing Mac character alongside a geeky, virus-prone, uptight PC character. Apple's campaign successfully converted many consumers and tarnished Microsoft's brand image. In 2007, Microsoft launched the Vista operating sys- tem to great expectations; however, it was plagued by bugs and problems and the company's stock and image continued to slide, helped by the worldwide recession of 2008–2009. In response, Microsoft created a campaign titled "Windows. Life Without Walls" to help turn its image around. Its new message—that computers with Microsoft software were more cost-effective than the competition— resonated well in the recession. Microsoft also launched a series of commercials that boasted, "I'm a PC" and fea- tured a wide variety of individuals who prided themselves on being PC owners, hoping to improve employee morale and customer loyalty. In 2009, Microsoft launched Windows 7, an improved operating system, with the campaign "Windows 7 was my idea." Four years later, it was operating more than 30 stores like Apple's across the United States and Canada. Jonathan Adashek, general manager of Communications Strategy, explained, "We've welcomed more than 15 mil- lion customers and counting so far, and have learned a lot from them. Having this direct connection to our cus- tomers has really helped us better understand their tech needs." Travis Walter, general manager of Microsoft's International and New Store Formats, agreed, "In person, you get a very different experience and it's one we've been very delighted to provide. When you see our tech- nology in person—when you can touch and feel it—a light goes off." as his competitors but kept prices lower by reducing his profit margin. His customers quickly caught on, and the company took off almost immediately. Walton's EDLP (Every Day Low Price) strategy remains the foundation of Walmart's success today. Through the company's economies of scale, Walmart is able to of- fer customers top brand-name products for the lowest possible price. Walmart expanded throughout the United States in the 1970s and 1980s by acquiring many of its Marketing Excellence >> Walmart Walmart, the giant chain of discount stores, is the third-largest company in the world, with more than $473 billion in revenue and 2.2 million associates (or employees). Its phenomenal success story began in 1962 when Sam Walton opened his first discount store in Rogers, Arkansas. Walton sold the same products 96 PART 2 | CAPTuRing MARkeTing insighTs backlash, combined with increased competition, con- tributed to the decline. Target, for example, reemerged on the retail scene with revamped stores, merchandise, and marketing strategy, all of which appealed to the top tier of discount shoppers. Target stores were well lit, and their wider, cleaner aisles displayed merchandise better. Even Target's television commercials featured more attractive models and trendier clothes from high- end designers. One analyst stated, "Target tends to have more upscale customers who don't feel the ef- fects of gasoline prices and other economic factors as much as Walmart's core customers might." During the mid-2000s, Target outperformed Walmart in same-store sales growth and profit growth. In addition, Walmart lost the exclusive rights to use the smiley face in its market- ing campaign. Walmart launched a series of new initiatives to help improve sales and its image. First, it introduced a highly successful $4 generic drug campaign, a program even- tually copied by Target. Walmart also launched several environmentally friendly initiatives such as constructing new buildings from recycled materials, cutting transporta- tion costs and energy usage, and encouraging customers to buy more green products. Next, the company imple- mented a massive store remodeling effort called Project Impact. Stores ended up cleaner, aisles were less clut- tered, and merchandise became easier to reach. Finally, Walmart replaced its long-running slogan "Always Low Prices" with "Save Money. Live Better." Television commercials went beyond the EDLP message and highlighted other positive contributions, including Walmart's improved energy costs, 401(k) (retirement) savings, employee health care coverage, and fam- ily savings. Walmart also used the new campaign to highlight its unique product mix and low prices and to attract consumers hurt by the recession. Same-store sales rose, and the company's stock price improved during the recession. Analyst believed Walmart's prod- uct mix—45 percent consumables (food, beauty, health items)—was better fitted for a poor economy than Target's—20 percent consumables and 40 percent home and apparel products. One analyst explained, "Walmart sells what you need to have as opposed to what you want to have." After the recession, Walmart sought new strategies to maintain its momentum and expand its consumer base. After decades of making its stores bigger, it began launching smaller-format stores—Neighborhood Markets of less than 50,000 square feet and Walmart Express shops of about 10,000 square feet—to fend off the competitors and opening new stores. The first Walmart Supercenter—a discount store beefed up with food outlets and other amenities such as an optical center, photo lab, and hair salon—opened in 1988. By 1990, Walmart had become the nation's number-one retailer, with $32 billion in revenue and stores in 33 states. The company's international expansion began with a store outside Mexico City in 1991 and has grown to more than 5,600 international locations, some under a different brand name. Walmart thrives on three basic beliefs and values: "Respect for the Individual," "Service to Our Customers," and "Striving for Excellence." Sam Walton's original 10- foot rule—"I promise that whenever I come within 10 feet of a customer, I will look him in the eye, greet him, and ask if I can help him."—still governs today, embodied by the "greeters" at the front door. In addition, Walmart embraces the communities it enters, develops strong local relationships, and works hard to foster its brand image in the area. The company donates significant amounts of money to local charities through its "Good Works" program, hires local individuals, and purchases food from local farmers. Walmart's marketing strategy has evolved over the years. Early efforts were based on word of mouth, positive PR, and aggressive store expansion. In 1992, Walmart introduced its well-known tagline "Always Low Prices. Always," which effectively communicated the company's core brand promise and resonated with millions. In 1996, Walmart launched its price rollback campaign featuring the familiar yellow smiley face as the star of the campaign. The company's stock soared 1173 percent in the 1990s. Walmart hit a few bumps in the road as it entered the 21st century. Critics protested its entry into small com- munities. Researchers at Iowa State University found that within 10 years of a new Walmart opening, as many as half the small stores in town went out of business. Walmart also faced multiple lawsuits from employees who complained about poor work conditions, exposure to health hazards, and pay below minimum wage. In some cases, employees said Walmart failed to pay for overtime, prevented them from taking rest or lunch breaks, and discriminated against women. These problems led to a very high turnover rate in the 2000s and an abundance of negative media coverage. According to one Walmart survey, 70 percent of employees left the company within the first year of employment due to lack of recognition and inadequate pay. From 2000 to 2005, Walmart's stock price fell 27 percent, and it remained low through 2007. Negative ColleCTing infoRMATion And foReCAsTing deMAnd | chapter 3 97 2. Walmart performs very well when the economy turns sour. How can it protect itself when the economy is on the rise? Explain. Sources: Dave Goldiner, "Exxon Tops Wal-Mart on 2009 Fortune 500 List," New York Daily News, April 20, 2009; "Wal-Mart Seeks Smiley Face Rights," BBC News, August 5, 2006; David Ng, "Wal-Mart vs. Target," Forbes, December 13, 2004; Michael Barbaro, "A New Weapon for Wal-Mart: A War Room," New York Times, November 1, 2005; Kenneth E. Stone, "Impact of the Wal-Mart Phenomenon on Rural Communities," Increasing Understanding of Public Problems and Policies (Chicago: Farm Foundation, 1997), pp. 189–200; Suzanne Kapner, "Wal-mart Enters the Ad Age," CNNMoney.com, August 17, 2008; Jack Neff, "Why Walmart Is Getting Serious About Marketing," Advertising Age, June 8, 2009; Sean Gregory, "Wal-Mart's Project Impact: A Move to Crush Competition," Time, September 9, 2009; "Store Wars: When Wal-Mart Comes to Town," PBS, February 24, 2007; Sean Gregory, "Wal-Mart vs. Target: No Contest in the Recession," Time, March 14, 2009; Andria Cheng, "Corporate News: Wal-Mart Lays Out Strategy," Wall Street Journal, October 11, 2012, B.8; www.walmart.com. growing dollar-store chains. Walmart also increased its presence on social media to help connect with its con- sumers, gain feedback, and build loyalty. Today, Walmart has stores in 27 international mar- kets and serves more than 250 million customers a week through Walmart Supercenters, Discount Stores, Neighborhood Markets, and Sam's Club warehouses. Questions 1. Evaluate the evolution of Walmart's marketing cam- paign and tagline over the years. What does the company continue to do well? What are the pros and cons of its most recent strategic marketing plan? 98 In This Chapter, We Will Address the Following Questions 1. What is the scope of marketing research? (p. 99) 2. What steps are involved in conducting good marketing research? (p. 102) 3. What are the best metrics for measuring marketing productivity? (p. 115) Samsung uses marketing research to sharpen the launch of its new products. Source: ASSOCIATED PRESS MyMarketingLab™ Improve Your Grade! Over 10 million students improved their results using the Pearson MyLabs. Visit mymktlab.com for simulations, tutorials, and end-of-chapter problems. 99 In this chapter, we review the scope of marketing research and the steps involved in the marketing research process. We also consider how marketers can develop effective metrics for measuring marketing productivity. To make the best possible tactical decisions in the short run and strategic decisions in the long run, marketers need timely, accurate, and actionable information about consumers, competition, and their brands. Discovering a marketing insight and understanding its implications can often lead to a successful product launch or spur the growth of a brand. It is especially important to stay tuned in online.1 Conducting Marketing Research 4 In launching its new Galaxy S III smart phone, Samsung faced a formidable opponent in Apple. To gain the upper hand, Samsung sifted through hundreds of thousands of tweets and online conver- sations to uncover recurring negative comments about the iPhone. One ad in its new campaign mocked Apple fanatics eagerly waiting in line for the latest iPhone model. With a tagline "The Next Big Thing Is Already Here," the ad showcased features such as screen size and NFC file-swapping technology where Samsung had an advantage. It ended with the clever twist that the Samsung phone user in the line—whose phone had all the features the Apple users were hoping for—was just saving a spot for his parents. A huge hit online, the ad attracted millions of YouTube downloads. The TV ad was a follow- up to an earlier print ad contrasting a long list of Galaxy S III features with a much smaller list for the iPhone. It also poked fun at Apple and its Genius retail employees, adding the tagline "It Doesn't Take a Genius." The Scope of Marketing Research Marketing managers often commission formal marketing studies of specific problems and opportunities, like a market survey, a product-preference test, a sales forecast by region, or an advertising evaluation. It's the job of the marketing researcher to produce insight to help the marketing manager's decision making. Formally, the American Marketing Association says:2 Marketing research is the function that links the consumer, customer, and public to the marketer through information—information used to identify and define marketing opportunities and problems; generate, refine, and evaluate marketing actions; monitor marketing performance; and improve under- standing of marketing as a process. Marketing research specifies the information required to address these issues, designs the method for collecting information, manages and implements the data collection process, analyzes the results, and communicates the findings and their implications. Importance of marketInG InsIGhts Marketing research is all about generating insights. Marketing insights provide diagnostic information about how and why we observe certain effects in the marketplace and what that means to marketers.3 In launching its new Galaxy S III smart phone, Samsung faced a formidable opponent in Apple. To gain the upper hand, Samsung sifted through hundreds of thousands of tweets and online conver sations to uncover recurring negative comments about the iPhone. One ad in its new campaign 100 PART 2 | CAPTuRing MARkeTing insighTs Good marketing insights often form the basis of successful marketing programs. • When an extensive consumer research study of U.S. retail shoppers by Walmart revealed that the store's key competitive advantages were the functional benefit of "offers low prices" and the emotional benefit of "makes me feel like a smart shopper," its marketers used those insights to develop their "Save Money, Live Better" campaign.4 • When marketing research showed that consumers viewed Walgreens largely as a convenience store with a pharmacy in the back, the company took steps to reposition itself as a premium health care brand, putting more emphasis on its wellness offerings such as its walk-in clinics.5 Gaining marketing insights is crucial for marketing success. To improve the marketing of its $3 billion Pantene hair care brand, Procter & Gamble conducted a deep dive into women's feelings about hair, using surveys with mood scales from psychology, high-resolution EEG research to measure brainwaves, and other methods. As a re- sult, the company reformulated Pantene products, redesigned packages, pared the line down from 14 "collections" to eight, and fine-tuned the ad campaign.6 If marketers lack consumer insights, they often get in trouble. When Tropicana redesigned its orange juice packaging, dropping the iconic image of an orange skewered by a straw, it failed to adequately test for consumer reactions—with disastrous results. Sales dropped by 20 percent, and Tropicana reinstated the old package design after only a few months.7 Who Does marketInG research? Spending on marketing research topped $40.2 billion globally in 2013, according to ESOMAR, the world asso- ciation of opinion and market research professionals.8 Most large companies have their own marketing research departments, which often play crucial roles within the organization. Here is how Procter & Gamble describes its marketing research department.9 Consumer & Market Knowledge (CMK) Department is P&G's key internal compass guiding and cham- pioning decisions related to brand and customer business development strategy based on in-depth analysis of consumers, shoppers and the retail trade. CMK leads analysis of market trends and consumer habits/motivations, shopper behavior, customer and competitive dynamics; designs and analyzes qualita- tive and quantitative consumer and shopper research studies as well as syndicated market data. CMK is an integral partner, involved in all the stages of the brand life cycle starting with design of a concept to final product development and through to the in-market launch driving business growth. CMK brings to life P&G stated global strategy "Consumer is Boss." Marketing research, however, is not limited to large companies with big budgets and marketing research de- partments. Often at much smaller companies, everyone carries out marketing research—including the customers. Small companies can also hire the services of a marketing research firm or conduct research in creative and afford- able ways, such as: 1. Engaging students or professors to design and carry out projects—AT&T, GE, Samsung, Shell Oil, and others have engaged in a "crowdcasting" exercise by sponsoring the Innovation Challenge, where top MBA students P&G employed a wide range of research techniques to completely overhaul its Pantene product line. So ur ce : T he P ro ct er & G am bl e C om pa ny ConduCTing MARkeTing ReseARCh | chapter 4 101 compete in teams to address company problems. The students gain experience and visibility; the companies get fresh sets of eyes to solve problems at a fraction of what consultants would charge.10 The nonprofit United Way uses graduate students and interns as critical marketing research resources to collect and consolidate marketplace data and set up larger research projects.11 2. Using the Internet—A company can collect considerable information at little cost by examining competitors' Web sites, monitoring chat rooms and blogs, and accessing published data. Social media monitoring tools from companies like Radian6, Attensity, and Lithium keep firms on top of online buzz. Home water filtration company Aquasana uses tools from NetBase to collect what people are saying about Brita and other com- petitors on Twitter, Facebook, news sites, blogs, message boards, and any other place there are relevant online conversations.12 3. Checking out rivals—Many small businesses, such as restaurants, hotels, or specialty retailers, routinely visit competitors to learn about changes they have made. Tom Stemberg, who founded the office supply superstore Staples, made weekly unannounced visits to his own stores, competitors' stores, and other stores outside his category, always focused on "what the store was doing right" to get ideas for improving Staples.13 4. Tapping into marketing partner expertise—Marketing research firms, ad agencies, distributors, and other marketing partners may be able to share relevant market knowledge they have accumulated. Partners target- ing small or medium-sized businesses may be especially helpful. For example, to promote more shipping to China, UPS conducted several in-depth surveys of the Chinese market to portray its complexities but also its opportunities for even small and medium-sized businesses.14 5. Tapping into employee creativity and wisdom—No one may come into more contact with customers and understand a company's products, services, and brands better than its employees. Software maker Intuit puts employees into four- to six-person "two pizza" teams—called that because it takes only two pizzas to feed them. They observe customers in all walks of life and try to identify problems Intuit might be able to solve. Intuit takes all the employees' proposed solutions and experiments with them, building products behind the ideas that seem to work best.15 Most companies use a combination of resources to study their industries, competitors, audiences, and channel strategies. They normally budget marketing research at 1 percent to 2 percent of company sales and spend a large percentage of that on the services of outside firms. Marketing research firms fall into three categories: 1. Syndicated-service research firms—These firms gather consumer and trade information, which they sell for a fee. Examples include the Nielsen Company, Kantar Group, Westat, and IRI. 2. Custom marketing research firms—These firms are hired to carry out specific projects. They design the study and report the findings. 3. Specialty-line marketing research firms—These firms provide specialized research services. The best example is the field-service firm, which sells field interviewing services to other firms. overcomInG BarrIers to the Use of marketInG research In spite of the rapid growth of marketing research, many companies still fail to use it sufficiently or correctly. They may not understand what it is capable of or provide the researcher the right problem definition and The founder of Staples made weekly visits to stores of all kinds for insights and inspiration. So ur ce : p ic tu re a lli an ce /F ra nk D ue nz l/ N ew sc om 102 PART 2 | CAPTuRing MARkeTing insighTs information from which to work. They may also have unrealistic expectations about what researchers can offer. Failure to use mar- keting research properly has led to numerous gaffes, including the following historic one.16 Star WarS In the 1970s, a successful marketing research executive left General Foods to try a daring gambit: bringing market research to Hollywood, to give film studios access to the same research that had spurred General Foods's success. A major film studio handed him a science fiction film proposal and asked him to research and predict its success or failure. His views would inform the studio's decision about whether to back the film. The research executive concluded the film would fail. For one, he argued, Watergate had made the United States less trusting of institutions and, as a result, its citizens in the 1970s prized realism and authenticity over science fiction. This particular film also had the word "war" in its title; the executive reasoned that viewers, suffering post-Vietnam hangover, would stay away in droves. The film was Star Wars, which eventually grossed more than $4.3 billion in box office re- ceipts alone. What this researcher delivered was information, not insight. He failed to study the script itself, to see that it was a fundamentally hu- man story—of love, conflict, loss, and redemption—that happened to play out against the backdrop of space. The Marketing Research Process To take advantage of all the resources and practices available, good marketers adopt a formal marketing research process that follows the six steps shown in Figure 4.1. We illustrate these steps in the following situation.17 American Airlines (AA) was one of the first companies to install phone handsets on its planes. Now it's reviewing many new ideas, especially to cater to its first-class passengers on very long flights, mainly businesspeople whose high-priced tickets pay most of the freight. Among these ideas are: (1) ultra high-speed Wi-Fi service, (2) 124 channels of high-definition satellite cable TV, and (3) a 250-CD audio system that lets each passenger create a customized in-flight playlist. The marketing research manager was assigned to investigate how first-class passengers would rate these services, specifically ultra high-speed Wi-Fi, and how much extra they would be willing to pay. One source estimates revenues of $70 million from Wi-Fi access over 10 years if enough first-class passengers paid $25. AA could thus recover its costs in a reasonable time, given that making the connection available would cost $90,000 per plane. step 1: Define the proBlem, the DecIsIon alternatives, anD the research oBjectives Marketing managers must be careful not to define the problem too broadly or too narrowly for the marketing researcher. A marketing manager who says "Find out everything you can about first-class air travelers' needs" will collect a lot of unnecessary information. One who says "Find out whether enough passengers aboard a B777 fly- ing direct between Chicago and Tokyo would pay $25 for ultra high-speed Wi-Fi service so we can break even in one year on the cost of offering this service" is taking too narrow a view of the problem. Poorly conceived marketing research almost doomed the box office blockbuster Star Wars. So ur ce : C ha rl es S ty ng er/ A la m y im ag es ConduCTing MARkeTing ReseARCh | chapter 4 103 The marketing researcher might ask, "Why does Wi-Fi have to be priced at $25 as opposed to $15, $35, or some other price? Why does American have to break even on the service, especially if it attracts new cus- tomers?" Another relevant question is, "How important is it to be first in the market, and how long can the company sustain its lead?" The marketing manager and marketing researcher agreed to define the problem as follows: "Will offer- ing ultra high-speed Wi-Fi service create enough incremental preference and profit to justify its cost against other service enhancements American might make?" To help design the research, management should first spell out the decisions it might face and then work backward. Suppose management outlines these decisions: (1) Should American offer ultra high-speed Wi-Fi service? (2) If so, should it offer it to first-class only or include business class and possibly economy class? (3) What price(s) should be charged? (4) On what types of planes and lengths of trips should the service be offered? Now management and marketing researchers are ready to set specific research objectives: (1) What types of first-class passengers would respond most to ultra high-speed Wi-Fi service? (2) How many are likely to use it at different price levels? (3) How many might choose American because of this new service? (4) How much long-term goodwill will this service add to American's image? (5) How important is ultra high- speed Wi-Fi service to first-class passengers relative to other services, such as a power plug or enhanced entertainment? Not all research can be this specific. Some research is exploratory—its goal is to identify the problem and to sug- gest possible solutions. Some is descriptive—it seeks to quantify demand, such as how many first-class pas- sengers would purchase ultra high-speed Wi-Fi service at $25. Some research is causal—its purpose is to test a cause-and-effect relationship. step 2: Develop the research plan In the second stage of marketing research we develop the most efficient plan for gathering the needed in- formation and discover what that will cost. Suppose American made a prior estimate that launching ultra high-speed Wi-Fi service would yield a long-term profit of $50,000. If the manager believes the market- ing research will lead to an improved pricing and promotional plan and a long-term profit of $90,000, he should be willing to spend up to $40,000 on this research. If the research will cost more than $40,000, it's not worth doing. To design a research plan, we need to make decisions about the data sources, research approaches, re- search instruments, sampling plan, and contact methods. Data SourceS The researcher can gather secondary data, primary data, or both. Secondary data are data that were collected for another purpose and already exist somewhere. Primary data are data freshly gathered for a specific purpose or project. Researchers usually start their investigation by examining some of the rich variety of low-cost and readily avail- able secondary data to see whether they can partly or wholly solve the problem without collecting costly primary data. For instance, auto advertisers looking to get a better return on their online car ads might purchase a copy of a J. D. Power and Associates survey that gives insights into who buys specific brands and where advertisers can find them online. Develop the research plan Collect the information Define the problem and research objectives Analyze the information Present the findings Make the decision | Fig. 4.1 | The Marketing Research Process To help make a decision to offer ultra high-speed Wi-Fi service on its flights, an airline would want to carefully research the issue. So ur ce : A ss oc ia te d Pr es s 104 PART 2 | CAPTuRing MARkeTing insighTs When the needed data don't exist or are dated or unreliable, the researcher will need to collect primary data. Most marketing research projects do include some primary-data collection. reSearch approacheS Marketers collect primary data in five main ways: through observation, focus groups, surveys, behavioral data, and experiments. Observational Research Researchers can gather fresh data by observing unobtrusively as customers shop or consume products. Sometimes they equip consumers with pagers and instruct them to write down or text what they're doing whenever prompted, or they hold informal interview sessions at a café or bar.18 Photographs and videos can also provide a wealth of detailed information. Although privacy concerns have been expressed, some retailers are linking security cameras with software to record shopper behavior in stores. In its 1,000 retail stores, T-Mobile can track how people move around, how long they stand in front of displays, and which phones they pick up and for how long.19 Ethnographic research uses concepts and tools from anthropology and other social science disciplines to provide deep cultural understanding of how people live and work.20 The goal is to immerse the researcher into consumers' lives to uncover unarticulated desires that might not surface in any other form of research.21 Fujitsu Laboratories, Herman Miller, Steelcase, and Xerox have embraced ethnographic research to design breakthrough products. Technology companies like IBM, Microsoft, and Hewlett-Packard use anthropologists and ethnologists working alongside systems engineers and software developers.22 Any type of firm can benefit from the deep consumer insights of ethnographic research. To boost sagging sales for its Orville Redenbacher popcorn, ConAgra spent nine months observing families at home and studying weekly diaries of how they felt about various snacks. Researchers found a key insight: the essence of popcorn was that it was a "facilitator of interaction." Four nationwide TV ads followed with the tagline "Spending Time Together: That's the Power of Orville Redenbacher."23 Ethnographic research isn't limited to consumer products. UK-based Smith & Nephew, a global medical tech- nology business, used extensive international ethnographic research with patients and clinicians to understand the physical and emotional toll of wounds, developing ALLEVYN Life, a new wound-management dressing, in the process.24 In a business-to-business setting, a sharper focus on end users helped propel Thomson Reuters to greater financial heights.25 thOMSOn reuterS Just before it acquired Reuters, global information services giant Thomson Corporation embarked on extensive research to better understand its ultimate customers. Thomson sold to businesses and professionals in the financial, legal, tax and accounting, scientific, and health care sectors, and it wanted to know how individual brokers and investment bankers used its data, research, and other resources to make day-to-day investment decisions for clients. Segmenting the market by its end users, rather than by its corporate purchasers, and studying the way they viewed Thomson versus competitors allowed the firm to identify market segments that offered growth opportunities. Thomson then conducted surveys and "day in the life" ethnographic research on how end users did their jobs. Using an approach called "three minutes," researchers combined observation with detailed interviews to understand what end users were doing three minutes before and after they used one of Thomson's products. Insights from the research helped the company develop new products and make acquisitions that led to significantly higher revenue and profits in the year that followed. The American Airlines researchers might meander around first-class lounges to hear how travelers talk about different carriers and their features or sit next to passengers on planes. They can fly on competitors' planes to observe in-flight service. Focus Group Research A focus group is a gathering of 6 to 10 people carefully selected for demographic, psychographic, or other considerations and convened to discuss various topics at length for a small payment. A professional moderator asks questions and probes based on the marketing managers' agenda; the goal is to uncover consumers' real motivations and the reasons they say and do certain things. Sessions are typically recorded, and marketing managers often observe from behind two-way mirrors. To allow more in-depth discussion, focus groups are trending smaller in size.26 Focus group research is a useful exploratory step, but researchers must avoid generalizing to the whole market because the sample is too small and is not drawn randomly. Some marketers feel this research setting is too con- trived and prefer less artificial means. "Marketing Memo: Conducting Informative Focus Groups" has some practi- cal tips to improve the quality of focus groups. ConduCTing MARkeTing ReseARCh | chapter 4 105 In the American Airlines research, the moderator might start with a broad question, such as "How do you feel about first-class air travel?" Questions then move to how people view the different airlines, different existing ser- vices, different proposed services, and, specifically, ultra high-speed Wi-Fi service. Focus groups allow marketers to hone in on issues not easily addressed by surveys. The key to using them successfully is to thoughtfully listen and carefully observe, leaving assumptions and biases behind. Although useful insights can emerge, questions also arise about focus groups' validity. Some researchers believe consumers are so bombarded with ads, they unconsciously (or perhaps cynically) parrot back what they've heard instead of what they really think. It's always possible participants are trying to main- tain their self-image and public persona, engage in "groupthink," or satisfy a need to identify with other members. They may be unwilling to acknowledge—or even recognize—their behavior patterns and motivations, and one highly opinionated person can drown out the rest of the group. Getting the right participants is crucial, but groups can be expensive (around $3,000 to $5,000 per group). It can be difficult to generalize the results, even from multiple focus groups. For example, within the United States, findings often vary from region to region. One firm specializing in focus group research claimed Minneapolis was the best city to get a sample of fairly well-educated people who were honest and forthcoming. Many marketers interpret focus groups in New York and other northeastern cities carefully because people there tend to be highly critical and generally don't report that they like much. Participants must feel relaxed and be strongly motivated to be truthful. Physical surroundings can be crucial. At one agency an executive noted, "We wondered why people always seemed grumpy and negative—people were resistant to any idea we showed them." Finally in one session a fight broke out between participants. The problem was the room itself: cramped, stifling, forbidding. "It was a cross between a hospital room and a police interrogation room." To fix the problem, the agency gave the room a makeover. Other firms adapt the room to fit the topic—such as designing it to look like a playroom when speaking to children. To increase interactivity among focus group members, some researchers assign pre-session homework such as diaries, photography, and videography. Online focus groups may cost less than a quarter of an in-person focus group. They are also less intrusive, allow geographically diverse subjects to par- ticipate, and yield fast results. Proponents of traditional groups maintain that in-person sessions immerse marketers in the research process, offer a close-up look at people's emotional and physical reactions, and ensure that sensitive materials are not leaked. In-person, marketers can also adjust the flow of discus- sion and delve deeply into more complex topics. Regardless of the form it takes, the focus group is still, as one marketing executive noted, "the most cost-effective, quickest, dirtiest way to get information in rapid time on an idea." Wharton's Americus Reed might have said it best: "A focus group is like a chain saw. If you know what you're doing, it's very useful and effective. If you don't, you could lose a limb." Sources: Sarah Jeffrey Kasner, "Fistfights and Feng Shui," Boston Globe, July 21, 2001; Linda Tischler, "Every Move You Make," Fast Company, April 2004, pp. 73–75; Dennis Rook, "Out-of-Focus Groups," Marketing Research 15, no. 2 (Summer 2003), p. 11; Piet Levy, "In with the Old, In Spite of the New," Marketing News, May 30, 2009, p. 19; Piet Levy, "10 Minutes with . . . Robert J. Morais," Marketing News, May 30, 2011; William Boateng, "Evaluating the Efficacy of Focus Group Discussion (FGD) in Qualitative Social Research," International Journal of Business and Social Science 3 (April 2012), pp. 54–57; Demetrius Madrigal and Bryan McCain, "Do's and Don'ts for Focus Groups," www.uxmatters.com, July 4, 2011. Conducting Informative Focus Groups marketing memo Marketers can unobtrusively observe focus groups behind two-way mirrors to gain qualitative insights from consumers. So ur ce : S pe nc er G ra nt /G et ty I m ag es 106 PART 2 | CAPTuRing MARkeTing insighTs Survey Research Companies undertake surveys to assess people's knowledge, beliefs, preferences, and satisfaction and to measure these magnitudes in the general population. A company such as American Airlines might prepare its own survey instrument, or it might add questions to an omnibus survey that carries the questions of several companies at a much lower cost. It can also pose questions to an ongoing consumer panel run by itself or another company. It may do a mall intercept study by having researchers approach people in a shopping mall and ask them questions. Or it might add a survey request at the end of calls to its customer service department. However they conduct their surveys—online, by phone, or in person—companies must feel the information they're getting from the mounds of data makes it all worthwhile. San Francisco–based Wells Fargo bank collects more than 50,000 customer surveys each month through its bank branches. It has used customers' comments to begin more stringent new wait-time standards designed to improve customer satisfaction. Of course, companies may risk creating "survey burnout" and seeing response rates plummet. Keeping a survey short and simple is one key to drawing participants. Offering incentives is another. Walmart, Rite Aid, Petco, and Staples include an invitation to fill out a survey on the cash register receipt with a chance to win a prize.27 Behavioral Research Customers leave traces of their purchasing behavior in store scanning data, catalog purchases, and customer databases. Marketers can learn much by analyzing these data. Actual purchases reflect consumers' preferences and often are more reliable than statements they offer to market researchers. For example, grocery shopping data show that high-income people don't necessarily buy the more expensive brands, contrary to what they might state in interviews, and many low-income people buy some expensive brands. As Chapter 3 described, there is a wealth of online data to collect from consumers. Clearly, American Airlines can learn many useful things about its passengers by analyzing ticket purchase records and online behavior. The most scientifically valid research is experimental research, designed to capture cause-and-effect relation- ships by eliminating competing explanations of the findings. If the experiment is well designed and executed, research and marketing managers can have confidence in the conclusions. Experiments call for selecting matched groups of subjects, subjecting them to different treatments, controlling extraneous variables, and checking whether observed response differences are statistically significant. If we can eliminate or control extraneous factors, we can relate the observed effects to the variations in the treatments or stimuli. American Airlines might introduce ultra high-speed Wi-Fi service on one of its regular flights from Chicago to Tokyo and charge $25 one week and $15 the next week. If the plane carried approximately the same number of first-class passengers each week and the particular weeks made no difference, the airline could relate any signifi- cant difference in the number of passengers using the service to the price charged. reSearch InStrumentS Marketing researchers have a choice of three main research instruments in collecting primary data: questionnaires, qualitative measures, and technological devices. Questionnaires A questionnaire consists of a set of questions presented to respondents. Because of its flexibility, it is by far the most common instrument used to collect primary data. The form, wording, and sequence of the questions can all influence the responses, so testing and de-bugging are necessary. Closed-end questions specify all the possible answers, and the responses are easier to interpret and tabulate. Open-end questions allow respondents to answer in their own words. They are especially useful in exploratory research, where the researcher is looking for insight into how people think rather than measuring how many think a certain way. Table 4.1 provides examples of both types of questions; also see "Marketing Memo: Questionnaire Dos and Don'ts." Wells Fargo conducts thousands of consumer surveys to improve its banking services. So ur ce : J on at ha n Ay re s/ Po la ri s/ Ne ws co m ConduCTing MARkeTing ReseARCh | chapter 4 107 table 4.1 Types of Questions Name Description Example A. Closed-End Questions Dichotomous A question with two possible answers In arranging this trip, did you personally phone American? Yes No Multiple choice A question with three or more answers With whom are you traveling on this flight? ☐ No one ☐ Children only ☐ Spouse ☐ Business associates/friends/relatives ☐ Spouse and children ☐ An organized tour group Likert scale A statement with which the respon- dent shows the amount of agreement/ disagreement Small airlines generally give better service than large ones. Strongly Disagree Neither Agree Strongly disagree agree nor agree disagree 1_____ 2_____ 3_____ 4_____ 5_____ Semantic differential A scale connecting two bipolar words. The respondent selects the point that represents his or her opinion. I find American Airlines ... Large _______________________________ Small Experienced _______________________________ Inexperienced Modern _______________________________ Old-fashioned Importance scale A scale that rates the importance of some attribute Airline in-flight service to me is Extremely Very Somewhat Not very Not at all important important important important important 1_____ 2_____ 3_____ 4_____ 5_____ Rating scale A scale that rates some attribute from "poor" to "excellent" American in-flight service is Excellent Very Good Good Fair Poor 1_____ 2_____ 3_____ 4_____ 5_____ Intention-to-buy scale A scale that describes the respondent's intention to buy If ultra high-speed Wi-Fi service were available on a long flight, I would Definitely Probably Not sure Probably Definitely buy buy not buy not buy 1_____ 2_____ 3_____ 4_____ 5_____ B. Open-End Questions Completely unstructured A question that respondents can answer in an almost unlimited number of ways What is your opinion of American Airlines? Word association Words are presented, and the respondents mention the first word that comes to mind. What is the first word that comes to your mind when you hear the following? Airline________________________ American________________________ Travel________________________ Sentence completion An incomplete sentence is presented and respondents complete the sentence. When I choose an airline, the most important consideration in my decision is ________________________. Story completion An incomplete story is presented, and respondents are asked to complete it. "I flew American a few days ago. I noticed that the exterior and interior of the plane had very bright colors. This aroused in me the following thoughts and feelings . . . ." Now complete the story. Picture A picture of two characters is pre- sented, with one making a statement. Respondents are asked to identify with the other and fill in the empty balloon. Thematic Apperception Test (TAT) A picture is presented and respondents are asked to make up a story about what they think is happening or may happen in the picture. 108 PART 2 | CAPTuRing MARkeTing insighTs Qualitative Measures Some marketers prefer qualitative methods for gauging consumer opinion because they feel consumers' actions don't always match their answers to survey questions. Qualitative research techniques are relatively indirect and unstructured measurement approaches, limited only by the marketing researcher's creativity, that permit a range of possible responses. They can be an especially useful first step in exploring consumers' perceptions because respondents may be less guarded and reveal more about themselves in the process. Qualitative research does have its drawbacks. The samples are often very small, and results may not generalize to broader populations. And different researchers examining the same qualitative results may draw very different conclusions. Nevertheless, there is increasing interest in using qualitative methods. "Marketing Insight: Getting into the Heads of Consumers" describes the pioneering ZMET approach. Other popular methods include:28 1. Word associations. To identify the range of possible brand associations, ask subjects what words come to mind when they hear the brand's name. "What does the Timex name mean to you? Tell me what comes to mind when you think of Timex watches." 2. Projective techniques. Give people an incomplete or ambiguous stimulus and ask them to complete or explain it. In "bubble exercises" empty bubbles, like those in cartoons, appear in scenes of people buying or using cer- tain products or services. Subjects fill in the bubble, indicating what they believe is happening or being said. In comparison tasks people compare brands to people, countries, animals, activities, cars, nationalities, or even other brands. 3. Visualization. Visualization requires people to create a collage from magazine photos or drawings to depict their perceptions. 4. Brand personification. Ask "If the brand were to come alive as a person, what would it be like, what would it do, where would it live, what would it wear, who would it talk to if it went to a party (and what would it talk about)?" For example, the John Deere brand might make someone think of a rugged Midwestern male who is hardworking and trustworthy. 5. Laddering. A series of increasingly specific "why" questions can reveal consumer motivation and deeper goals. Ask why someone wants to buy a Nokia cell phone. "They look well built" (attribute). "Why is it im- portant that the phone be well built?" "It suggests Nokia is reliable" (a functional benefit). "Why is reliability important?" "Because my colleagues or family can be sure to reach me" (an emotional benefit). "Why must you be available to them at all times?" "I can help them if they're in trouble" (a core value). The brand makes this person feel like a Good Samaritan, ready to help others. 1. Ensure that questions are without bias. Don't lead the respondent into an answer. 2. Make the questions as simple as possible. Questions that include multiple ideas or two questions in one will confuse respondents. 3. Make the questions specific. Sometimes it's advisable to add memory cues. For example, be specific with time periods. 4. Avoid jargon or shorthand. Avoid trade jargon, acronyms, and initials not in everyday use. 5. Steer clear of sophisticated or uncommon words. Use only words in common speech. 6. Avoid ambiguous words. Words such as usually or frequently have no specific meaning. 7. Avoid questions with a negative in them. It is better to say, "Do you ever…?" than "Do you never…?" 8. Avoid hypothetical questions. It's difficult to answer questions about imaginary situations. Answers aren't necessarily reliable. 9. Do not use words that could be misheard. This is especially important when administering the interview over the telephone. "What is your opinion of sects?" could yield interesting but not necessarily relevant answers. 10. Desensitize questions by using response bands. To ask people their age or ask companies about employee turnover rates, offer a range of response bands instead of precise numbers. 11. Ensure that fixed responses do not overlap. Categories used in fixed-response questions should be distinct and not overlap. 12. Allow for the answer "other" in fixed-response questions. Precoded answers should always allow for a response other than those listed. Source: Adapted from Paul Hague and Peter Jackson, Market Research: A Guide to Planning, Methodology, and Evaluation (London: Kogan Page, 1999). See also Hans Baumgartner and Jan-Benedict E. M. Steenkamp, "Response Styles in Marketing Research: A Cross-National Investigation," Journal of Marketing Research (May 2001), pp. 143–56; Bert Weijters and Hans Baumgartner, "Misresponse to Reversed and Negated Items in Surveys: A Review," Journal of Marketing Research 49 (October 2012), pp. 737–47. Marketing Questionnaire Dos and Don'tsmarketing memo ConduCTing MARkeTing ReseARCh | chapter 4 109 Getting into the Heads of Consumers Former Harvard Business School marketing professor Gerald Zaltman, with colleagues, developed an in-depth methodology to uncover what consumers think and feel about products, services, brands, and other things. The basic assumption behind the Zaltman Metaphor Elicitation Technique (ZMET) is that most thoughts and feelings are unconscious and shaped by a set of universal deep metaphors, basic orientations toward the world that shape everything consumers think, hear, say, or do. According to Zaltman, there are seven main metaphors: 1. Balance: justice, equilibrium and the interplay of elements; 2. Transformation: changes in substance and circumstance; 3. Journey: the meeting of past, present, and future; 4. Container: inclusion, exclusion, and other boundaries; 5. Connection: the need to relate to oneself and others; 6. Resource: acquisitions and their consequences; and 7. Control: sense of mastery, vulnerability, and well-being. The ZMET technique works by first asking participants in advance to select a minimum of 12 images from their own sources (magazines, catalogs, family photo albums) to represent their thoughts and feelings about the research topic. In a one-on-one interview, the study admin- istrator uses advanced interview techniques to explore the images with the participant and reveal hidden meanings. Finally, the participants use a computer program to create a collage with these images that communicates their subconscious thoughts and feelings about the topic. The results often significantly influence marketing actions, as the following two examples illustrate: • In a ZMET study about pantyhose for marketers at DuPont, some respondents' pictures showed fence posts encased in plastic wrap or steel bands strangling trees, suggesting that pantyhose are tight and inconvenient. But another picture showed tall flowers in a vase, suggesting the product made a woman feel thin, tall, and sexy. The "love-hate" relationship in these and other pictures sug- gested a more complicated product relationship than the DuPont marketers had assumed. • Although many older consumers told Danish hearing aid company Oticon that cost was the reason they were postponing purchase, a ZMET analysis revealed the bigger problem was fear of being seen as old or flawed. Oticon responded by creating Delta, a line of stylish new hearing aids that came in flashy colors such as sunset orange, racing green, or cabernet red. ZMET has also been applied to help design the new Children's Hospital in Pittsburgh, PA, remake the classic soup labels for Campbell, and improve ways to connect with prospective undergraduate applicants for the University of North Carolina at Chapel Hill. Sources: Gerald Zaltman and Lindsay Zaltman, Marketing Metaphoria: What Deep Metaphors Reveal about the Minds of Consumers (Boston: Harvard Business School Press, 2008); Glenn L. Christensen and Jerry C. Olson, "Mapping Consumers' Mental Models with ZMET," Psychology & Marketing 19 (June 2002), pp. 477–502; Emily Eakin, "Penetrating the Mind by Metaphor," New York Times, February 23, 2002; Anne Eisenberg, "The Hearing Aid as Fashion Statement," New York Times, September 24, 2006; Mackenzie Carpenter, "The New Children's Hospital: Design Elements Combine to Put Patients, Parents at Ease," Pittsburgh Post-Gazette, April 26, 2009; Jennifer Williams, "Campbell's Soup Neuromarketing Redux: There's Chunks of Real Science in That Recipe," Fast Company, February 22, 2010; Jay Matthews, "Admissions Office Probes Applicants' Scary Depths," Washington Post, July 22, 2010. marketing insight Marketers don't have to choose between qualitative and quantitative measures. Many use both, recognizing that their pros and cons can offset each other. For example, companies can recruit someone from an in-home product use test by capturing his or her reactions and intentions with a video diary and an online survey.29 A ZMET qualitative research study helped the University of North Carolina at Chapel Hill improve its undergraduate admission efforts. So ur ce : © U N C -C ha pe l H ill 110 PART 2 | CAPTuRing MARkeTing insighTs Technological Devices Galvanometers can measure the interest or emotions aroused by exposure to a specific ad or picture. The tachistoscope flashes an ad to a subject with an exposure interval that may range from less than one hundredth of a second to several seconds. After each exposure, the respondent describes everything he or she recalls. Many advances in visual technology techniques studying the eyes and face have benefited marketing researchers and managers alike.30 Studying the eyes and Face A number of increasingly cost-effective methods to study the eyes and faces of consumers have been developed in recent years with diverse applications. Packaged goods companies such as P&G, Unilever, and Kimberly-Clark combine 3-D computer simulations of product and packaging de- signs with store layouts and use eye-tracking technology to see where consumer eyes land first, how long they linger on a given item, and so on. After doing such tests, Unilever changed the shape of its Axe body wash container, the look of the logo, and the in-store display. In the International Finance Center Mall in Seoul, Korea, two cameras and a motion detec- tor are placed above the LCD touch screens at each of the 26 information kiosks. Facial recognition software estimates users' age and gender, and interactive ads targeting the demographic then appear. Similar applications are being developed for digital sidewalk billboards in New York, Los Angeles, and San Francisco. Facial recognition cameras and software are being tested to identify and reward participating loyal U.S. customers of retailers and restaurants via opt-in smart phone updates. In one commercial application, SceneTap uses cameras with facial detection software to post information about how full a bar is, as well as the average age and gender profile of the crowd, to help bar hoppers pick their next destination. Technology now has replaced diaries that participants in media surveys used to keep. Audiometers attached to television sets in participating homes now record when the set is on and to which channel it is tuned. Electronic devices can record the number of radio programs a person is exposed to during the day or, using Global Positioning System (GPS) technology, how many billboards a person may walk or drive by during a day. Sampling plan After choosing the research approach and instruments, the marketing researcher must design a sampling plan. This calls for three decisions: 1. Sampling unit: Whom should we survey? In the American Airlines survey, should the sampling unit consist of only first-class business travelers, first-class vacation travelers, or both? Should it include travelers under age 18? Both traveler and spouse? With the sampling unit chosen, marketers must next develop a sam- pling frame so everyone in the target population has an equal or known chance of being sampled. 2. Sample size: How many people should we survey? Large samples give more reliable results, but it's not necessary to sample the entire target population to achieve reliable results. Samples of less than 1 percent of a population can often provide good reliability, with a credible sam- pling procedure. 3. Sampling procedure: How should we choose the respondents? Probability sampling allows marketers to calculate confidence limits for sampling error and makes the sample more representa- tive. Thus, after choosing the sample, marketers could conclude that "the interval five to seven trips per year has 95 chances in 100 of containing the true number of trips taken annually by first-class passengers flying between Chicago and Tokyo." contact methoDS Now the marketing researcher must decide how to contact the subjects: by mail, by telephone, in person, or online. Mail Contacts The mail questionnaire is one way to reach people who would not give personal interviews or whose responses might Using sophisticated equipment and methods, neuroscience researchers are studying how brain activity is affected by consumer marketing. So ur ce : E R IC H S C H LE G E L/ T he N ew Y or k T im es ConduCTing MARkeTing ReseARCh | chapter 4 111 be biased or distorted by the interviewers. Mail questionnaires require simple and clearly worded questions. Unfortunately, responses are usually few or slow. Telephone Contacts Telephone interviewing is a good method for gathering information quickly; the interviewer is also able to clarify questions if respondents do not understand them. Interviews must be brief and not too personal. Although the response rate has typically been higher than for mailed questionnaires, telephone interviewing in the United States is getting more difficult because of consumers' growing antipathy toward telemarketers. In late 2003, Congress passed legislation allowing the Federal Trade Commission to restrict telemarketing calls through its "Do Not Call" registry. By mid-2010, consumers had registered more than 200 million phone numbers. Marketing research firms are exempt from the ruling, but the increasingly widespread resistance to telemarketing undoubtedly reduces the effectiveness of telephone surveys in the United States. In other parts of the world, such restrictive legislation does not exist. Because mobile phone penetration in Africa had risen from just 1 in 50 people in 2000 to almost eighty percent of the population by 2014, marketers use cell phones there to convene focus groups in rural areas and to interact via text.34 Personal Contacts Personal interviewing is the most versatile method. The interviewer can ask more questions and record additional observations about the respondent, such as dress and body language. Personal interviewing is also the most expensive method, is subject to interviewer bias, and requires more planning and supervision. In arranged interviews, marketers contact respondents for an appointment and often offer a small payment or Understanding Brain Science As an alternative to traditional consumer research, some researchers have begun to develop sophisticated techniques from neuroscience that monitor brain activity to better gauge consumer responses to marketing. The term neuromarketing describes brain research on the effect of marketing stimuli. Firms are using EEG (electroencepha- lograph) technology to correlate brand activity with physiological cues such as skin temperature or eye movement and thus gauge how people react to ads. Researchers studying the brain have found different results from conventional research methods. One group of researchers at UCLA used functional magnetic resonance imaging (fMRI) to find that the Super Bowl ads for which subjects displayed the highest brain activity were different from the ads with the highest stated preferences. Other research found little effect from product placement unless the products in question played an integral role in the storyline. Several studies have found higher correlations with brain wave research and behavior than with surveys. One study found that brain waves better predicted music purchases than stated music prefer- ences. One major finding from neurological consumer research is that many purchase decisions appear to be characterized "as a largely unconscious habitual process, as distinct from the rational, conscious, information-processing model of economists and traditional marketing textbooks." Even basic decisions, such as the purchase of gasoline, seem to be influenced by brain activity at the subrational level. A group of researchers in England used EEG to monitor cognitive functions related to memory recall and attentiveness for 12 different re- gions of the brain as subjects were exposed to advertising. Brain wave activity in different regions indicated different emotional responses. For example, heightened activity in the left prefrontal cortex is characteristic of an "approach" response to an ad and indicates an attraction to the stimulus. In contrast, a spike in brain activity in the right prefrontal cortex is indicative of a strong revulsion to the stimulus. In yet another part of the brain, the degree of memory formation activity correlates with purchase intent. Other research has shown that people activate different regions of the brain in assessing the personality traits of other people than they do when assessing brands. Although it may offer different insights from conventional tech- niques, neurological research can still be fairly expensive and has not been universally accepted. Given the complexity of the human brain, many researchers caution that it should not form the sole basis for marketing decisions. The measurement devices to capture brain activity can also be highly obtrusive, using skull caps studded with electrodes or creating artificial exposure conditions. Others question whether neurological research really offers unam- biguous implications for marketing strategy. Brian Knutson, a professor of neuroscience and psychology at Stanford University, compares the use of EEG to "standing outside a baseball stadium and listening to the crowd to figure out what happened." Other critics worry that if the methods do become successful, they will only lead to more marketing manipulation by companies. Despite controversy, marketers' endless pursuit of deeper insights about consumers' response to marketing virtually guarantees continued interest in neuromarketing. Sources: Carolyn Yoon, Angela H. Gutchess, Fred Feinberg, and Thad A. Polk, "A Functional Magnetic Resonance Imaging Study of Neural Dissociations be- tween Brand and Person Judgments," Journal of Consumer Research 33 (June 2006), pp. 31–40; Martin Lindstrom, Buyology: Truth and Lies about Why We Buy (New York: Doubleday, 2008); Brian Sternberg, "How Couch Potatoes Watch TV Could Hold Clues for Advertisers," Boston Globe, September 6, 2009, pp. G1, G3; Kevin Randall, "Neuromarketing Hope and Hype: 5 Brands Conducting Brain Research," Fast Company, September 15, 2009; Todd Essig, "The Future of Focus Groups: My Brain Knows What You Like," Forbes, April 28, 2012; Carmen Nobel, "Neuromarketing: Tapping into the 'Pleasure Center' of Consumers," Forbes, February 1, 2013. marketing insight 112 PART 2 | CAPTuRing MARkeTing insighTs incentive. In intercept interviews, researchers stop people at a shopping mall or busy street corner and request an interview on the spot. Intercept interviews must be quick, and they run the risk of including nonprobability samples. Online Contacts The Internet offers many ways to do research. A company can embed a questionnaire on its Web site and offer an incentive for answering, or it can place a banner on a frequently visited site, inviting people to answer questions and possibly win a prize. Online product testing can provide information much faster than traditional new-product marketing research techniques. Marketers can also host a real-time consumer panel or virtual focus group or sponsor a chat room, bulletin board, or blog where they introduce questions from time to time. They can ask customers to brainstorm or have the company's Twitter followers rate an idea. Insights from Kraft-sponsored online communities helped the com- pany develop its popular line of 100-calorie snacks.35 Del Monte tapped its 400-member, handpicked online community called "I Love My Dog" when it was consider- ing a new breakfast treat for dogs. The consensus request was for something with a bacon-and-egg taste and an extra dose of vitamins and minerals. Working with the online community throughout product development, the company introduced fortified "Snausages Breakfast Bites" in half the time usually required to launch a new product.36 Online research was a $2.4 billion dollar business in 2011. A host of new online survey providers have entered the market, such as SurveyMonkey, Survey-Gizmo, Qualtrics, and Google Consumer Surveys. Founded in 1999, SurveyMonkey has over 15 million registered users. Members can create surveys to quickly post on blogs, Websites, Facebook, or Twitter. 37 Like any survey, however, online surveys need to ask the right people the right questions on the right topic. Other means to use the Internet as a research tool including tracking how customers clickstream through the company's Web site and move to other sites. Marketers can post different prices, headlines, and product features on separate Web sites or at different times to compare their relative effectiveness. Researchers like Bluefin Labs monitor all relevant Twitter tweets, Facebook posts, and broadcast television stories to provide companies with real-time trend analysis.38 Firms like SurveyMonkey make it easy to conduct online consumer surveys. So ur ce : S ur ve yM on ke y ConduCTing MARkeTing ReseARCh | chapter 4 113 Yet, as popular as online research methods are, smart companies use them to augment rather than replace more traditional methods. Like any method, online research has pros and cons. Here are some advantages: • Online research is inexpensive. A typical online survey can cost 20 percent to 50 percent less than a conven- tional survey, and return rates can be as high as 50 percent. • Online research is expansive. There are essentially no geographical boundaries, allowing marketers to con- sider a wide range of possible respondents. • Online research is fast. The survey can automatically direct respondents to applicable questions, store data, and transmit results immediately. • Responses tend to be honest and thoughtful. People may be more relaxed and candid when they can answer on their own time and respond privately without feeling judged, especially on sensitive topics (such as "how often do you bathe or shower?").39 • Online research is versatile. Virtual reality software lets visitors inspect 3-D models of products such as cam- eras, cars, and medical equipment and manipulate product characteristics. Online community blogs allow customer participants to interact with each other. Some disadvantages include: • Samples can be small and skewed. Some 28 percent of U.S. households still lacked broadband Internet access in 2014; the percentage is higher among lower-income groups, in rural areas, and in most parts of Asia, Latin America, and Central and Eastern Europe, where socioeconomic and education levels also differ.40 Although Internet access will increase, online market researchers must find creative ways to reach population segments on the other side of the "digital divide." Combining offline sources with online findings and providing tem- porary Internet access at locations such as malls and recreation centers are options. Some research firms use statistical models to fill in the gaps left by offline consumer segments. • Online panels and communities can suffer excessive turnover. Members may become bored and flee or, worse, stay but participate halfheartedly. Panel and community organizers can raise recruiting standards, downplay incentives, and monitor participation and engagement levels. A constant flow of new features, events, and activities can keep members interested and engaged. • Online market research can suffer technological problems and inconsistencies. Because browser software varies, the designer's final product may look very different on the research subject's screen. Online researchers have also begun to use text messaging in various ways—to conduct a chat with a respondent, to probe more deeply with a member of an online focus group, or to direct respondents to a Web site. Text messag- ing is also a useful way to get teenagers to open up on topics. step 3: collect the InformatIon The data collection phase of marketing research is generally the most expensive and error-prone. Some respon- dents will be away from home, offline, or otherwise inaccessible; they must be contacted again or replaced. Others will refuse to cooperate or will give biased or dishonest answers. Internationally, one of the biggest obstacles to collecting information is the need to achieve consistency.41 Latin American respondents may be uncomfortable with the impersonal nature of the Internet and need interactive ele- ments in a survey so they feel they're talking to a real person. Respondents in Asia, on the other hand, may feel more pressure to conform and may not be as forthcoming in focus groups as online. Sometimes the solution may be as simple as ensuring the right language is used. step 4: analYze the InformatIon The next-to-last step in the process is to extract findings by tabulating the data and developing summary measures. The researchers now compute averages and measures of dispersion for the major variables and apply some ad- vanced statistical techniques and decision models in the hope of discovering additional findings. They may test dif- ferent hypotheses and theories, applying sensitivity analysis to test assumptions and the strength of the conclusions. step 5: present the fInDInGs As the last step, the researcher presents the findings. Researchers are increasingly asked to play a proactive, con- sulting role in translating data and information into insights and recommendations for management. "Marketing Insight: Bringing Marketing Research to Life with Personas" describes an approach that some researchers are us- ing to maximize the impact of their consumer research findings. 114 PART 2 | CAPTuRing MARkeTing insighTs The main survey findings for the American Airlines case showed that: 1. Passengers would use ultra high-speed Wi-Fi service primarily to stay connected and receive and send large documents and e-mails. Some would also surf the Web to download videos and songs. They would charge the cost back to their employers. 2. At $25, about 5 of 10 first-class passengers would use Wi-Fi service during a flight; at $15, about 6 would. Thus, a fee of $15 would produce less revenue ($90 = 6 × 15) than $25 ($125 = 5 × $25). Assuming the same flight takes place 365 days a year, American could collect $45,625 (= $125 × 365) annually. Given an invest- ment of $90,000 per plane, it would take two years for each to break even. 3. Offering ultra high-speed Wi-Fi service would strengthen American Airlines' image as an innovative and pro- gressive carrier and earn it some new passengers and customer goodwill. step 6: make the DecIsIon The American Airlines managers who commissioned the research need to weigh the evidence. If their confidence in the findings is low, they may decide against introducing ultra high-speed Wi-Fi service. If they are predisposed to launching it, the findings support their inclination. They may even decide to study the issue further and do more research. The decision is theirs, but rigorously done research provides them with insight into the problem (see Table 4.2).42 Some organizations use marketing decision support systems to help their marketing managers make better decisions. MIT's John Little defined a marketing decision support system (MDSS) as a coordinated collection of data, systems, tools, and techniques, with supporting software and hardware, by which an organization gathers and interprets relevant information from business and environment and turns it into a basis for marketing ac- tion.44 Once a year, Marketing News lists hundreds of current marketing and sales software programs that assist Bringing Marketing Research to Life with Personas To bring all their acquired information and insights to life, some re- searchers are employing personas. Personas are detailed profiles of one, or perhaps a few, hypothetical target consumers, imagined in terms of demographic, psychographic, geographic, or other descriptive at- titudinal or behavioral information. Photos, images, names, or short bios help convey how the target customer looks, acts, and feels so marketers can incorporate a well-defined target-customer point of view in all their marketing decision making. Many software companies, Microsoft in particular, have used personas to help improve user interfaces and ex- periences, and marketers have broadened the application. For example: • Unilever's biggest and most successful hair-care launch, for Sunsilk, was aided by insights into the target consumer the company dubbed "Katie." The Katie persona outlined the 20-something female's hair-care needs, but also her perceptions and attitudes and the way she dealt with her everyday "dramas." • Specialty tool and equipment maker Campbell Hausfeld relied on the many retailers it supplied, including Home Depot and Lowe's, to help it keep in touch with consumers. After developing eight consumer profiles, including a female do-it-yourselfer and an elderly consumer, the firm was able to successfully launch new products such as drills that weighed less or that included a level for picture hanging. Although personas provide vivid information to aid marketing decision making, it's important not to overgeneralize. Any target market may have a range of consumers who vary along a number of key dimen- sions, so researchers sometimes employ two to six personas. Using quantitative, qualitative, and observational research, Best Buy devel- oped five customer personas to guide the redesign and relaunch of GeekSquad.com, its national computer-support service: • "Jill"—a suburban mom who uses her computer daily and de- pends on the Geek Squad as on a landscaper or plumber. • "Charlie"—a 50-plus male who is curious about technology but needs an unintimidating guide. • "Daryl"—a technologically savvy hands-on experimenter who oc- casionally needs a helping hand. • "Luis"—a time-pressed small business owner whose primary goal is to complete tasks as expediently as possible. • "Nick"—a prospective Geek Squad agent who views the site criti- cally and needs to be challenged. To satisfy Charlie, a prominent 911 button was added to the upper right-hand corner in case a crisis arose, but to satisfy Nick, Best Buy created a whole channel devoted to geek information. Sources: Dale Buss, "Reflections of Reality," Point, June 2006, pp. 10–11; Todd Wasserman, "Unilever, Whirlpool Get Personal with Personas," Brandweek, September 18, 2006, p. 13; Daniel B. Honigman, "Persona-fication," Marketing News, April 1, 2008, p. 8; Lisa Sanders, "Major Marketers Get Wise to the Power of Assigning Personas," Advertising Age, April 9, 2007, p. 36; Paul Murray, "Who Are They?," www.chiefmarketer.com, June/July 2010, pp. 53–54; Lauren Sorenson, "6 Core Benefits of Well-Defined Marketing Personas," www.blog.hotspot.com, December 13, 2011. marketing insight ConduCTing MARkeTing ReseARCh | chapter 4 115 in designing marketing research studies, segmenting markets, setting prices and advertising budgets, analyzing media, and planning sales force activity.45 Measuring Marketing Productivity Although we can easily quantify marketing expenses and investments as inputs in the short run, the resulting outputs such as broader brand awareness, enhanced brand image, greater customer loyalty, and improved new product prospects may take months or years to manifest themselves. Meanwhile internal changes within the or- ganization and external changes in the marketing environment may coincide with the marketing expenditures, making it hard to isolate its effects.46 Nevertheless, marketing research must assess the efficiency and effectiveness of marketing activities. Two complementary approaches to measuring marketing productivity are: (1) marketing metrics to assess marketing effects and (2) marketing-mix modeling to estimate causal relationships and measure how marketing activity af- fects outcomes. Marketing dashboards are a structured way to disseminate the insights gleaned from these two approaches. marketInG metrIcs Marketers employ a wide variety of measures to assess marketing effects.47 Marketing metrics is the set of mea- sures that helps marketers quantify, compare, and interpret their performance.48 • The CMO of Mary Kay cosmetics would focus on four long-term brand strength metrics—market aware- ness, consideration, trial, and 12-month beauty consultant productivity—as well as a number of short-term program-specific metrics like ad impressions, Web site traffic, and purchase conversion. • The VP of marketing at Virgin America would look at a broad set of online metrics—cost per acquisition, cost per click, and cost per thousand page impressions (CPM). She would also look at total dollars driven by natural and paid search and online display advertising as well as tracking results and other metrics from the offline world. table 4.2 The Seven Characteristics of Good Marketing Research 1. Scientific method Effective marketing research uses the principles of the scientific method: careful observation, formulation of hypotheses, prediction, and testing. 2. Research creativity In an award-winning research study to reposition Cheetos snacks, researchers dressed up in a tough mascot Chester Cheetah suit and walked around the streets of San Francisco. The response the character encountered led to the realization that even adults loved the fun and playfulness of Cheetos. The resulting repositioning led to a double-digit sales increase despite a tough business environment.43 3. Multiple methods Marketing researchers shy away from overreliance on any one method. They also recognize the value of using two or three methods to increase confidence in the results. 4. Interdependence of models and data Marketing researchers recognize that data are interpreted from underlying models that guide the type of information sought. 5. Value and cost of information Marketing researchers show concern for estimating the value of information against its cost. Costs are typically easy to determine, but the value of research is harder to quantify. It depends on the reliability and validity of the findings and management's willingness to accept and act on those findings. 6. Healthy skepticism Marketing researchers show a healthy skepticism toward glib assumptions made by managers about how a market works. They are alert to the problems caused by "marketing myths." 7. Ethical marketing Marketing research benefits both the sponsoring company and its customers. The misuse of marketing research can harm or annoy consumers, increasing resentment at what consumers regard as an invasion of their privacy or a disguised sales pitch. 116 PART 2 | CAPTuRing MARkeTing insighTs Marketers choose one or more measures based on the particular issues or problems they face. Mindbody, a web-based business management software provider for the wellness and beauty industries worldwide, tracks numerous online analytics including landing page conversions, click through rates for online ads and rankings on Google search. In addition, MINDBODY monitors the following online metrics on a weekly basis: 1) Website analytics, details on site navigation and online interaction; 2) Social media pres- ence, different demographic and geographic responses to social media channels across different markets; and 3) Permission marketing statistics, measures of interactions and engagement with consumers from auto e-mails. "Marketing Memo: Measuring Social Media ROI" offers some insight into the thorny issue of mea- suring social media effects. An advocate of simple, relevant marketing metrics, the University of Virginia's Paul Farris draws an analogy to the way Boeing 747 jet pilots select information from the vast array of instruments in the cockpit:49 Aircraft pilots have protocols. When they are sitting on the tarmac waiting their engines waiting to take off, they are looking at certain things. When they are taxiing, they look at others. When they are in flight, they look at still others. There is a sequence of knowing when to pay attention to which metrics, which lets them have their cake and eat it too, in terms of the simplicity and complexity trade-off. London Business School's Tim Ambler believes firms can split evaluation of marketing performance into two parts: (1) short-term results and (2) changes in brand equity.50 Short-term results often reflect profit-and- loss concerns as shown by sales turnover, shareholder value, or some combination of the two. Brand-equity measures could include customer awareness, attitudes, and behaviors; market share; relative price premium; number of complaints; distribution and availability; total number of customers; perceived quality, and loyalty and retention.51 Companies can also monitor an extensive set of internal metrics, such as innovation. For example, 3M tracks the proportion of sales resulting from its recent innovations. Ambler also recommends developing employee mea- sures and metrics, arguing that "end users are the ultimate customers, but your own staff are your first; you need to measure the health of the internal market." Table 4.3 summarizes a list of popular internal and external marketing metrics from Ambler's survey in the United Kingdom.52 Software provider MINDBODY uses a wide variety of online statistics to monitor its brand and assess marketing effects. So ur ce : M I N D B O D Y ConduCTing MARkeTing ReseARCh | chapter 4 117 Industry expenditures on social media campaigns are expected to double in the next four years, but many marketers do not know what they are getting in return for their dollars. When Audi ran the first Super Bowl ad to feature a Twitter hashtag in 2011, it had no idea how much the high engagement of its Facebook fan base translated into sales of more cars. One report showed that 50 percent of Fortune 1000 companies did not benchmark or measure the payback of their social CRM projects. Initially, the focus of measuring social media effects was on easily observed quantities like the number of Facebook "likes" and Twitter tweets per week. These did not always correlate with marketing or business success, so researchers began digging deeper. Assessing social media value is not an easy task. Some marketing pundits compare social media to a phone: How would you assess the ROI of all the different calls you make? Josh Bernoff, Forrester Research's acclaimed digital marketing guru, sees short-term and long-term benefits of social media in four categories: 1. Short-term financial benefits, such as increased revenue or decreased costs. On the revenue side, when NetShops.com added ratings and reviews to its site, sales increased 26 percent within six months. On the cost side, National Instruments, makers of sophisticated technical engineering products, found members of its user community answered 46 percent of other users' questions, saving NI its typical $10 service cost per call. Similarly, AT&T's revamped online community saved the firm 16 percent in telephone customer support in one month. 2. Short-term overall digital benefits. When Swanson Health Products improved the visibility of its product reviews, they became more accessible to search engines, and traffic to its product pages rose 163 percent. Online videos, communities, blogs, and Twitter can similarly boost search performance. 3. Long-term brand lift. Social media can improve long-term brand performance measures. When P&G created a Facebook page to support ski jumper Lindsey Van, it solicited 40,000 signatures on a petition to make ski jumping an Olympic sport. Surveys of participating Facebook users found an 8 percent to 11 percent increase in brand preference and purchase intent. 4. Long-term risk avoidance. Dealing with a crisis can cost a firm millions of dollars over time. It is better to avoid or avert a crisis before it creates any brand damage. Firms such as McDonald's and AT&T have customer service teams who monitor Tweets about their products or services to nip any al- leged problems in the bud. Forrester social media analyst Zach Hofer-Shall believes mining actionable insights and measurable feedback from social media requires: (1) the right people to interpret the data, (2) a business purpose to drive strategy, (3) the best social listening platform for achieving goals, and (4) a formalized process for analyzing data and taking action. The easiest way to create and measure social media's payoff is to include a contest, sweepstake, or promotion. Silicon Valley ad agency Wildfire created a promotion for Jamba Juice where the value of a "lucky coupon" was revealed only in-store. Tens of thousands of customers entered. The promotion was suc- cessful, but social media results can still be unpredictable. V. Kumar and his colleagues suggest a seven-step process to social media success with several helpful indices that could be developed for each step: 1. Monitor the conversations. 2. Identify influential individuals. 3. Identify the factors they share. 4. Locate potential influencers who have relevant interests. 5. Recruit those influencers. 6. Incentivize them to spread positive word of mouth. 7. Reap the rewards. Research has also shown that our use of social media differs in significant ways. People tend to be more positive in one-way communica- tions (such as blogs and Twitter) than in two-way forums where they share and discuss brand or product experiences with others. Sources: "ROI Lacking in Social CRM," www.warc.com. May 4, 2012; Josh Bernoff, "A Balanced Perspective on Social ROI," Marketing News, February 28, 2011; Piet Levy, "10 Minutes with . . . Zach Hofer-Shall," Marketing News, September 15, 2011; Frahad Manjoo, "Does Social Media Have a Return on Investment?," Fast Company, July/August 2011; David A. Schweidel, Wendy W. Moe, and Chris Boudreaux, "Social Media Intelligence: Measuring Brand Sentiment from Online Conversation," MSI Report 12-100 (Cambridge, MA: Marketing Science Institute), 2012. Measuring social media ROImarketing memo P&G's online campaign to support ski jumper Lindsay Van produced benefits for its Secret deodorant brand too. So ur ce : G et ty I m ag es 118 PART 2 | CAPTuRing MARkeTing insighTs marketInG-mIx moDelInG Marketing accountability also means that marketers must more precisely estimate the effects of different mar- keting investments. Marketing-mix models analyze data from a variety of sources, such as retailer scanner data, company shipment data, pricing, media, and promotion spending data, to understand more precisely the effects of specific marketing activities.53 To deepen understanding, marketers can conduct multivariate analyses, such as regression analysis, to sort through how each marketing element influences marketing outcomes such as brand sales or market share. Especially popular with packaged-goods marketers such as Procter & Gamble, Clorox, and Colgate, the findings from marketing-mix modeling help allocate or reallocate expenditures. Analyses explore which part of ad budgets are wasted, what optimal spending levels are, and what minimum investment levels should be. Although marketing-mix modeling helps to isolate effects, it is less effective at assessing how different market- ing elements work in combination. Wharton's Dave Reibstein also notes three other shortcomings:54 • Marketing-mix modeling focuses on incremental growth instead of baseline sales or long-term effects. • The integration of important metrics such as customer satisfaction, awareness, and brand equity into marketing-mix modeling is limited. • Marketing-mix modeling generally fails to incorporate metrics related to competitors, the trade, or the sales force (the average business spends far more on the sales force and trade promotion than on advertising or consumer promotion). marketInG DashBoarDs Firms are also employing organizational processes and systems to make sure they maximize the value of all these different metrics. Management can assemble a summary set of relevant internal and external measures in a marketing dashboard for synthesis and interpretation. Marketing dashboards are like the instrument panel in a car or plane, visually displaying real-time indicators to ensure proper functioning. Formally, marketing dashboards are "a concise set of interconnected performance drivers to be viewed in common throughout the organization."55 Dashboards are only as good as the information on which they're based, but sophisticated visualization tools are helping bring data alive. Color-coding, symbols, and different types of charts, tables, and gauges are easy to use and effective. Some companies are also appointing marketing controllers to review budget items and expenses. Increasingly, these controllers use business intelligence software to create digital versions of marketing dashboards that aggregate data from internal and external sources. table 4.3 Sample Marketing Metrics I. External II. Internal Awareness Awareness of goals Market share (volume or value) Commitment to goals Relative price (market share value/volume) Active innovation support Number of complaints (level of dissatisfaction) Resource adequacy Consumer satisfaction Staffing/skill levels Distribution/availability Desire to learn Total number of customers Willingness to change Perceived quality/esteem Freedom to fail Loyalty/retention Autonomy Relative perceived quality Relative employee satisfaction Source: Tim Ambler, "What Does Marketing Success Look Like?," Marketing Management (Spring 2001), pp. 13–18. ConduCTing MARkeTing ReseARCh | chapter 4 119 As input to the marketing dashboard, companies should include two key market-based scorecards that reflect performance and provide possible early warning signals. • A customer-performance scorecard records how well the company is doing year after year on such customer-based measures as those shown in Table 4.4. Management should set targets for each measure and take action when results get out of bounds. • A stakeholder-performance scorecard tracks the satisfaction of various constituencies who have a critical interest in and impact on the company's performance: employees, suppliers, banks, distributors, retailers, and stockholders. Again, management should take action when one or more groups register increased or above- norm levels of dissatisfaction.56 table 4.4 Sample Customer-Performance Scorecard Measures • Percentage of new customers to average number of customers • Percentage of lost customers to average number of customers • Percentage of win-back customers to average number of customers • Percentage of customers falling into very dissatisfied, dissatisfied, neutral, satisfied, and very satisfied categories • Percentage of customers who say they would repurchase the product • Percentage of customers who say they would recommend the product to others • Percentage of target market customers who have brand awareness or recall • Percentage of customers who say that the company's product is the most preferred in its category • Percentage of customers who correctly identify the brand's intended positioning and differentiation • Average perception of company's product quality relative to chief competitor • Average perception of company's service quality relative to chief competitor Marketing consultant Pat LaPointe sees marketing dashboards as providing all the up-to-the-minute information necessary to run the business operations for a company—such as sales versus forecast, distribution channel effectiveness, brand equity evolution, and human capital development. According to LaPointe, an effective dashboard will focus thinking, improve internal communications, and reveal where marketing investments are paying off and where they aren't. LaPointe observes four common measurement "pathways" marketers pursue today (see Figure 4.2). • The customer metrics pathway looks at how prospects become customers, from awareness to preference to trial to repeat purchase, or some less linear model. This area also examines how the customer experience contributes to the perception of value and competitive advantage. • The unit metrics pathway reflects what marketers know about sales of product/service units—how much is sold by product line and/or by geography; the marketing cost per unit sold as an efficiency yardstick; and where and how margin is optimized in terms of characteristics of the product line or distribution channel. • The cash-flow metrics pathway focuses on how well marketing expenditures are achieving short-term returns. Program and campaign ROI models measure the immediate impact or net present value of profits expected from a given investment. • The brand metrics pathway tracks the development of the longer-term impact of marketing through brand equity measures that assess both the perceptual health of the brand from customer and prospective customer perspectives and the overall financial health of the brand. LaPointe feels a marketing dashboard can present insights from all the pathways in a graphically related view that helps management see subtle links between them. Tabs can allow the user to toggle easily between different "families" of metrics organized by customer, product, experience, brand, channels, efficiency, organizational development, or macroenvironmental factors. Each tab presents the three or four most insightful metrics, with data filtered by busi- ness unit, geography, or customer segment based on the users' needs. (See Figure 4.3 for a sample brand dashboard report.) Ideally, over time the number of metrics on the dashboard will be reduced to a few key drivers. Meanwhile, the process of developing and refining the marketing dashboard will undoubtedly raise and resolve many key questions about the business. Source: Adapted from Pat LaPointe, Marketing by the Dashboard Light, Association of National Advertisers, 2005, www.MarketingNPV.com. Designing Effective Marketing Dashboardsmarketing memo 120 PART 2 | CAPTuRing MARkeTing insighTs Technically Sound But Ad-hoc Efforts Across Multiple Measurement Silos Customer Metrics Unit Metrics Cash-Flow Metrics 100s of Reports but Very Little Knowledge Integration or Learning Synthesis Brand Metrics Equity Drivers Financial Valuation Program and Campaign ROI Initiative Portfolio Optimization Media Mix Models Hierarchy of Effects Satisfaction/ Experience Attitude/Behavior Segment Migration Marketing Cost per Unit Margin Optimization Product/Category Sales Brand Imagery & Attributes | Fig. 4.2 | Marketing Measure Pathway | Fig. 4.3 | Example of a Marketing Dashboard Source: Adapted from Patrick LaPointe, Marketing by the Dashboard Light—How to Get More Insight, Foresight, and Accountability from Your Marketing Investments. © 2005, Patrick LaPointe. Some executives worry that they'll miss the big picture if they focus too much on a set of numbers on a dash- board. Some critics are concerned about privacy and the pressure the technique places on employees. But most experts feel the rewards offset the risks. "Marketing Memo: Designing Effective Marketing Dashboards" provides practical advice about the development of these marketing tools. ConduCTing MARkeTing ReseARCh | chapter 4 121 MyMarketingLab Go to mymktlab.com to complete the problems marked with this icon as well as for additional auto-graded and assisted-graded writing questions. Applications Marketing Debate What Is the Best Type of Marketing Research? Many market researchers have their favorite research approaches or techniques, though different researchers often have different preferences. Some researchers maintain that the only way to really learn about consumers or brands is through in-depth, qualitative research. Others contend that the only legitimate and defensible form of marketing research uses quantitative measures. Take a position: The best marketing research is quan- titative in nature versus The best marketing research is qualitative in nature. Marketing Discussion Survey Quality When was the last time you participated in a survey? How helpful do you think the information you provided was? How could the research have been done differently to make it more effective? focus group, survey, behavioral data, or experimental) and research instruments (questionnaire, qualitative measures, or technological devices). In addition, they must decide on a sampling plan and contact methods (by mail, by phone, in person, or online). 5. Two complementary approaches to measuring marketing productivity are: (1) marketing metrics to assess marketing effects and (2) marketing-mix modeling to estimate causal relationships and measure how mar- keting activity affects outcomes. Marketing dashboards are a structured way to disseminate the insights gleaned from these two approaches within the organization. 6. Assessing the ROI of social media is challenging but requires a range of short-term and long-term financial and brand-related measures. Although Facebook "likes" and Twitter tweets provide some sense of the engage- ment for a brand, a more complete set of measures is typically needed to get a more accurate picture of social media and other online activities. Summary 1. Companies can conduct their own marketing research or hire other companies to do it for them. Some ways companies can creatively and affordably conduct research include: engage students or professors to design and carry out projects; use the Internet; check out rivals; tap into marketing partner expertise; and tap into employee creativity and wisdom. 2. Good marketing research is characterized by the sci- entific method, creativity, multiple research methods, accurate model building, cost-benefit analysis, healthy skepticism, and an ethical focus. 3. The marketing research process consists of defining the problem, decision alternatives, and research objectives; developing the research plan; collecting the informa- tion; analyzing the information; presenting the findings to management; and making the decision. 4. In conducting research, firms must decide whether to collect their own data or use data that already exist. They must also choose a research approach (observational, 122 PART 2 | CAPTuRing MARkeTing insighTs use, and even dispose of products. For example, one method shadows consumers, takes pictures or videos of them during product purchase or use occasions, and conducts in-depth interviews with them to further evaluate their experiences. IDEO uses another method called behavioral mapping and creates a photo- graphic log of people within a certain area like an airline departure lounge, a hospital waiting room, or a food court to gauge how the experience can be improved. Participants keep a "camera journal" in which they record their visual impressions of a given product or category. IDEO also invites consumers to use storytell- ing exercises and share personal narratives, videos, skits, or even animations about their experiences with a product or service. IDEO's human-centered approach runs counter to the prevailing wisdom of many high-tech firms that focus more on their own capabilities when designing products. David Blakely, head of IDEO's technology group, explained, "Tech companies design from the inside out, whereas we design from the outside in so that we can put consumers first." Ultimately, the com- pany designs products that consumers want and value because they offer a superior experience and solve a problem. Recent product innovations include a heart defibrillator that talks with instructions during an emer- gency and a renovated version of the classic wooden classroom chair. Marriott hired IDEO to help make its Courtyard by Marriott hotels more appealing to younger guests. IDEO Marketing Excellence >> IDEO IDEO is the largest and one of the most influential design consultancy firms in the United States. The company has created many recognizable design icons of the technol- ogy age, including the first laptop computer, the first mouse for Apple, the Palm V PDA, and the TiVo digital video recorder. Beyond its high-tech wizardry, the com- pany has designed revolutionary household items such as the Swiffer Sweeper and Crest's stand-up toothpaste tube, both for Procter & Gamble. IDEO's diverse roster of clients includes AT&T, Bank of America, Ford Motor Company, PepsiCo, Nike, Marriott, Caterpillar, Eli Lilly, Lufthansa, Prada, and the Mayo Clinic. IDEO's success is predicated on an approach called "design thinking"—an innovative method that incorpo- rates behavior into design. It's an unconventional way of problem solving and starts by forming teams of indi- viduals with various backgrounds and experiences. Team members range from anthropologists and journalists to MBAs and engineers. IDEO's belief is that if you bring together a diverse group with these talents, they will build upon each other's ideas and come up a solution that one mind cannot reach alone. Next, IDEO uses different methods of behavioral research and observation to get into the mind of the consumer. This helps IDEO uncover deep insights and understand how consumers purchase, interact with, ConduCTing MARkeTing ReseARCh | chapter 4 123 IDEO's novel consumer-led approach to research and design has generated countless success stories and awards for the firm and its clients. Its work has also served as inspiration for the creation of Stanford University's design school— The Hasso Plattner Institute of Design—where stu- dents work on problem solving centered around design thinking. The most important result for IDEO is that its designs solve a usability problem for clients. The company goes broad and deep to achieve this goal. Since its founding, it has been issued thousands of patents and generated hundreds of millions in revenues. Questions 1. Why has IDEO been so successful? 2. What is the most difficult challenge it faces in con- ducting its research and designing its products? 3. In the end, IDEO creates great solutions for companies that then receive all the credit. Should IDEO try to cre- ate more brand awareness for itself? Why or why not? Sources: Lisa Chamberlain, "Going Off the Beaten Path for New Design Ideas," New York Times, March 12, 2006; Chris Taylor, "School of Bright Ideas," Time, March 6, 2005, p. A8; Scott Morrison, "Sharp Focus Gives Design Group the Edge," Financial Times, February 17, 2005, p. 8; Bruce Nussbaum, "The Power of Design," BusinessWeek, May 17, 2004, p. 86; Teresa Iezzi, "Innovate, but Do It for Consumers," Advertising Age, September 11, 2006; Barbara De Lollis, "Marriott Perks Up Courtyard with Edgier, More Social Style," USA Today, April 1, 2008; Tim Brown, "Change by Design," BusinessWeek, October 5, 2009, pp. 54–56; 60 Minutes, January 6, 2013. conducted interviews and observed guests in the hotel's lounges, lobbies, and restaurants. Its research revealed that younger guests were turned off by the lack of ac- tivity in the hotel's public places, the lack of technology offered, and poor food options. As a result, Courtyard by Marriott updated its furniture and decor to be more comfortable and inviting. The hotel added advanced technology options throughout its lobbies and lounges, such as flat-screen TVs and free Wi-Fi. Marriott converted its breakfast buffets to 24/7 coffee-shop-style cafés, where guests could quickly grab a gourmet coffee drink and healthy bite to eat anytime. Courtyard even created new outdoor hangout spots with sound speakers and fire pits. After the renovations, the chain changed its tagline to "Courtyard. It's a New Stay." Prototyping takes place throughout IDEO's design process so individuals can physically test out the prod- uct, experience it, and improve upon it during each level of development. IDEO encourages its clients, even senior executives, to participate in the research so they get a sense of the actual consumer experience with their product or service. For example, when it created a prototype for Apple's first mouse, Steve Jobs didn't like the sound it made when it moved around on a desk and insisted that IDEO find a way to reduce the noise. The design firm overcame this huge technical obstacle and successfully rubber-coated the steel ball without interfer- ing with its function. 124 PART 2 | CAPTuRing MARkeTing insighTs From 1995 to 1997, Intuit's stock tumbled 72 percent and the company was forced to refocus its strategic ef- forts. It turned to the growing power of the Internet, online banking capabilities, and valuable insight from extensive consumer research to develop new products. This new strategic focus and emphasis on consumer research helped improve the company's stock value and market position in the early 2000s. In 2007, Scott Cook wanted the company to focus even more intently on innovation. As a result, he adopted an up-and-coming approach to product development called design thinking. Design thinking is an unconven- tional way of problem solving that incorporates extensive consumer observation and research with trial and error and ongoing product prototyping. Today, Intuit spends a significant amount of time and money—approximately 20 percent of net revenues—on consumer research each year. This research helps Intuit understand exactly how customers use and feel about their products and keep abreast of technology, consumer needs, and competition. Field research helps Intuit uncover insight in a variety of ways. During a Site Visit, Intuit researchers visit the individual's home or office to observe exactly how products are used, what works well, what frustrates users, and how products can be improved upon. A Lab Study invites consumers to one of Intuit's research labs to test and experiment with Intuit's new products and ideas. During a Remote Study, consumers are interviewed over the phone and often asked to view new design concepts over the Internet. Intuit also conducts an ongoing extensive research study with the Institute for the Future to learn more about the future trends affecting small businesses. The company uses what it learns to improve versions of its products each year and better understand the next generation of financial and tax software. Marketing Excellence >> Intuit Intuit develops and sells financial and tax solution software for consumers and small and medium-sized businesses. The company was founded in 1983 by a former Procter & Gamble employee, Scott Cook, and a Stanford University programmer, Tom Proulx, after Cook realized there must be a better way to automate his bill-paying process. For almost 30 years, Intuit's mission has been to "revolutionize people's lives by solving their important business and financial manage- ment problems." Intuit launched its first product, Quicken, in 1984 but almost went out of business twice during its first few years. In order to survive, Intuit changed its distribution strategy and sold its software to banks. After some favor- able reviews in the trade journals and an effective print advertising campaign that featured a 1-800 number, the company got its first break. By 1988, Quicken was the best-selling finance product on the market. In 1992, Intuit launched QuickBooks, a bookkeeping and payroll soft- ware product for small businesses, and went public the following year. Intuit grew quickly in the early 1990s, thanks to the success of Quicken, QuickBooks, and TurboTax, its tax preparation software program. Intuit's products did something for small businesses that more complicated accounting packages didn't: They solved finance and tax problems in a simple, easy-to-use manner. Intuit had recognized correctly that simplicity was the key, not in-depth accounting analysis. By 1995, the firm held a 70 percent market share, and Microsoft tried to purchase it for $2 billion. The Justice Department, however, blocked the deal as anticompetitive, and the buyout collapsed. ConduCTing MARkeTing ReseARCh | chapter 4 125 communications tools for small businesses. In 2009, Intuit won a rare fight against Microsoft when the software giant discontinued its Money product line after an 18-year battle with Quicken. And the company's expansion into mobile solutions has encouraged younger consumers to adopt its finance and tax software. Intuit now has more than 50 mobile applications, and more than 45 million customers have used its cloud-based services in the past five years. As Intuit expands globally, it is developing new prod- ucts for consumers worldwide. In India, for example, Intuit launched Fasal, a service that gives hundreds of thousands of farmers up-to-date marketing information to help them get the best price for their crops. Intuit earned $4.51 billion in revenue for fiscal year 2014, primarily from Quicken, QuickBooks, and TurboTax sales. Questions 1. Why are consumer research and design thinking so critical to Intuit's success? 2. What are the challenges Intuit faces in the near future? 3. How important are Intuit's products for mobile devices? Sources: Intuit, 2012 Annual Report; Karen E. Klein, "The Face of Entrepreneurship in 2017," BusinessWeek, January 31, 2007; Intuit, "Intuit Study: Next-Gen Artisans Fuel New Entrepreneurial Economy," February 13, 2008; Michael Bush, "How PR Chiefs Have Shifted Toward Center of Marketing Departments," Advertising Age, September 21, 2009; Jon Swartz, "More Marketers Use Social Networking to Reach Customers," USA Today, August 28, 2009; Mark Johnson and Joe Sinfield, "Focusing on Consumer Needs Is Not Enough," Advertising Age, April 28, 2008; "Intuit CEO Sees Growth in Mobile, Global Markets," Associated Press, September 23, 2009; Sarah Needleman, "How I Built It: For Intuit Co-Founder, the Numbers Add Up," Wall Street Journal, August 18, 2011, p. B4; Rachel Emma Siverman, "Companies Change Their Way of Thinking," Wall Street Journal, June 7, 2012; Robin Goldwyn Blumenthal, "Intuit: Lots More Than Quicken," Wall Street Journal, September 30, 2012. Intuit's in-depth research recently led to innovative new products and services. For example, employees watched younger consumers get frustrated using an Intuit tax software program because they couldn't take pictures of their tax forms and complete their taxes via their mobile device. This frustration and Intuit's keen empathy for the consumer led to the development of a tax app called SnapTax. Launched in 2010, it has since been downloaded more than a million times. Demand for Intuit's products is seasonal, and its marketing efforts are typically concentrated around tax preparation time—November through April. During that time, Intuit develops promotions with original equipment manufacturers (OEMs) and major retailers via direct mail, Web marketing, print, radio, and television. While Intuit's marketing campaigns have evolved over the years, positive word of mouth and exceptional customer service have been its most effective market- ing tools since its early days. Harry Pforzheimer, chief communications officer and marketing leader, explained, "It's a little harder to measure but when you know that roughly eight out of 10 customers bought your prod- uct because of word-of-mouth that's a pretty powerful tool . . . So engaging with our customers directly is part of our DNA and communicating with customers on a timely basis is critical. And that timely basis now is instantaneous." Intuit has expanded globally through new product and service offerings and through strategic acquisitions. Its purchase of Mint.com, for example, added value by giving consumers another tool to analyze their spend- ing against a budget. Intuit also acquired Demandforce, which added the ability to provide online marketing and 126 In This Chapter, We Will Address the Following Questions 1. What are customer value, satisfaction, and loyalty, and how can companies deliver them? (p. 127) 2. What is the lifetime value of customers, and how can marketers maximize it? (p. 136) 3. How can companies attract and retain the right customers and cultivate strong customer relationships and communities? (p. 142) 4. How do customers' new capabilities affect the way companies conduct their marketing? (p. 146) Pandora has created strong customer loyalty with its innovative online music discovery and recommendation services. Source: Bloomberg via Getty Images MyMarketingLab™ Improve Your Grade! Over 10 million students improved their results using the Pearson MyLabs. Visit mymktlab.com for simulations, tutorials, and end-of-chapter problems. Connecting with CustomersPart 3 Chapter 5 Creating Long-Term Loyalty Relationships Chapter 6 Analyzing Consumer Markets Chapter 7 Analyzing Business Markets Chapter 8 Tapping Into Global Markets 127 Successful marketers are those who carefully culti- vate customer satisfaction and loyalty. In this chapter, we spell out the different ways they can go about winning customers and beating competitors. Although their enhanced capabilities can help companies earn strong customer loyalty, increased consumer capabilities pose challenges. Regardless, marketers must connect with customers—in- forming, engaging, and maybe even energizing them in the process. Customer-centered companies are adept at building customer relationships, not just products; they are skilled in market engineering, not just product en- gineering. Technology plays an increasing role for many companies and industries, offering new ways to satisfy customer needs and build loyalty. The music industry is a dramatic example.1 Creating Long-Term Loyalty Relationships 5 Building Customer Value, Satisfaction, and Loyalty Managers who believe the customer is the company's only true "profit center" consider the traditional organiza- tion chart in Figure 5.1(a)—a pyramid with the president at the top, management in the middle, and frontline people and customers at the bottom—obsolete.2 Perhaps no industry has been more thoroughly transformed than the music industry. Technologi- cal advances have changed the way consumers purchase, listen to, and share music, and music- streaming services are in a virtual arms race for their loyalty. Internet radio company Pandora has staked a claim to be the market leader with its innovative automated music discovery and recommen- dation service, the Music Genome Project, which has helped attract more than 200 million registered users. Based on a listener's musical selection, Pandora recommends other musical selections of a similar well-defined genre. Listener feedback to those recommendations and more than 400 different musical attributes judged by profes- sional music lovers who pass a rigorous test are combined and analyzed to suggest future songs. Pandora launched its smart-phone app in 2008, making its service available truly "anywhere, anytime" and enriching the opportunity to provide feedback and buy music that makes it highly involving to listeners. Advertisers are able to target Pandora's audiences by key demographics and traits such as gender, birth year, zip code location, type of music, and time of day. Pandora faces steep competition, however, from Spotify, iHeartRadio, and Slacker, each of which has unique features that may drive customer preference and loyalty. Perhaps no industry has been more thoroughly transformed than the music industry. Technologi streaming services are in a virtual arms race for their loyalty. Internet radio company Pandora has staked a claim to be the market leader with its innovative automated music discovery and recommen 128 PART 3 | ConneCTing WiTh CusTomeRs Successful marketing companies invert the chart to look like Figure 5.1(b). At the top are customers; next in importance are frontline people who meet, serve, and satisfy them; under them are the middle managers, whose job is to support the frontline people so they can serve customers well; and at the base is top management, whose job is to hire and support good middle managers. We have added customers along the sides of Figure 5.1(b) to indicate that managers at every level must be personally engaged in knowing, meeting, and serv- ing customers. Some companies have been founded on the customer-on-top business model, and customer advocacy has been their strategy—and competitive advantage—all along. With the rise of digital technologies, in- creasingly informed consumers expect companies to do more than connect with them, more than satisfy them, and even more than delight them. They expect companies to listen and respond to them. When Office Depot added customer reviews to its Web site, revenue and sales conversion increased significantly. The company also incorporated review-related terms in its paid search advertising campaign. As a result of these efforts, Web site revenue and the number of new buyers visiting the site both increased by more than 150 percent.3 Customer-PerCeIved value Consumers are better educated and better informed than ever, and they have the tools to verify compa- nies' claims and seek out superior alternatives. Even the best-run companies have to be careful not to take customers for granted, as Dell found out.4 DeLL Dell rode to success by offering low-priced computers, logistical efficiency, and after-sales service. The firm's maniacal focus on low costs has been a key ingredient in its success. When it shifted its customer- service call centers to India and the Philippines to cut costs, however, understaffing frequently led to 30-minute waits for customers. Almost half the calls required at least one transfer. To discourage customer calls, Dell even re- moved its toll-free service number from its Web site. With customer satisfaction slipping, while competitors matched its product quality and prices and offered better service, Dell's market share and stock price both declined sharply. Dell ended up hiring more North American call center employees. "The team was managing cost instead of manag- ing service and quality," Michael Dell confesses. How do customers ultimately make choices? They tend to be value maximizers, within the bounds of search costs and limited knowledge, mobility, and income. Customers choose—for whatever reason—the offer they believe will deliver the highest value and act on it (Figure 5.2). Whether the offer lives up to CUSTOMERS C U S T O M E R S C U S T O M E R S Frontline people (b) Modern Customer-Oriented Organization Chart Middle management Top manage- mentCUSTOMERS Middle management (a) Traditional Organization Chart Frontline people Top manage- ment | Fig. 5.1 | Traditional Organization versus Modern Customer- Oriented Company Organization Customer- perceived value Total customer benefit Total customer cost Monetary cost Time cost Energy cost Psychological cost Product benefit Services benefit Personnel benefit Image benefit | Fig. 5.2 | Determinants of Customer- Perceived Value CReATing Long-TeRm LoyALTy ReLATionshiPs | chapter 5 129 expectations affects customer satisfaction and the probability that the customer will purchase the product again. In one survey asking U.S. consumers "Does [Brand X] give good value for what you pay?" the top ten- scoring brands were: Subway, Cheerios, Amazon, History Channel, Ford, Discovery Channel, Lowe's, Olive Garden, YouTube, and Google.5 Defining Value Customer-perceived value (CPV) is the difference between the prospective customer's evaluation of all the benefits and costs of an offering and the perceived alternatives. Total customer benefit is the perceived monetary value of the bundle of economic, functional, and psychological benefits customers expect from a given market offering because of the product, service, people, and image. Total customer cost is the perceived bundle of costs customers expect to incur in evaluating, obtaining, using, and disposing of the given market offering, including monetary, time, energy, and psychological costs. Customer-perceived value is thus based on the difference between benefits the customer gets and costs he or she assumes for different choices. The marketer can increase the value of the offering by raising economic, func- tional, or emotional benefits and/or reducing one or more costs. The customer choosing between two value offer- ings, V1 and V2, will favor V1 if the ratio V1:V2 is larger than one, favor V2 if the ratio is smaller than one, and be indifferent if the ratio equals one. applying Value ConCepts Suppose the buyer for a large construction company wants to buy a tractor for residential construction from either Caterpillar or Komatsu. He wants the tractor to deliver certain levels of reliability, durability, performance, and resale value. The competing salespeople carefully describe their respective offers. The buyer decides Caterpillar has greater product benefits based on his perceptions of those attributes. He also perceives differences in the accompanying services—delivery, training, and maintenance—and decides Caterpillar provides better service as well as more knowledgeable and responsive staff. Finally, he places higher value on Caterpillar's corporate image and reputation. He adds up all the economic, functional, and psychological benefits from these four sources—product, services, people, and image—and perceives Caterpillar as delivering greater customer benefits. Does he buy the Caterpillar tractor? Not necessarily. He also examines his total cost of transacting with Caterpillar versus Komatsu, a cost that consists of more than money. As Adam Smith observed more than two centuries ago in The Wealth of Nations, "The real price of anything is the toil and trouble of acquiring it." Total customer cost therefore also includes the buyer's time, energy, and psychological costs expended in product acqui- sition, usage, maintenance, ownership, and disposal. The buyer evaluates these elements together with the mon- etary cost to form a total customer cost. Then he considers whether Caterpillar's total customer cost is too high compared to total customer benefits. If it is, he might choose Komatsu. The buyer will choose whichever source delivers the highest perceived value. Now let's use this decision-making theory to help Caterpillar succeed in selling to this buyer. Caterpillar can improve its offer in three ways. First, it can increase total customer benefit by improving economic, functional, and psychological benefits of its product, services, people, and/or image. Second, it can reduce the buyer's nonmonetary costs by reducing the time, energy, and psychological investment. Third, it can reduce its product's monetary cost to the buyer. Suppose Caterpillar concludes the buyer sees its offer as worth $20,000. Further, suppose Caterpillar's cost of producing the tractor is $14,000. This means Caterpillar's offer generates $6,000 over its cost, so the firm needs to charge between $14,000 and $20,000. If it charges less than $14,000, it won't cover its costs; if it charges more, it will price itself out of the market. When Dell cut costs too much on its customer service, customer satisfaction dropped and the company's stock price sank. So ur ce : B lo om be rg v ia G et ty I m ag es 130 PART 3 | ConneCTing WiTh CusTomeRs Caterpillar's price will determine how much value it delivers to the buyer and how much flows to Caterpillar. If it charges $19,000, it is creating $1,000 of customer-perceived value and keeping $5,000 for itself. The lower Caterpillar sets its price, the higher the customer's perceived value and, therefore, the higher the customer's in- centive to purchase. To win the sale, the firm must offer more customer-perceived value than Komatsu does.6 Caterpillar is well aware of the importance of taking a broad view of customer value. CaterPiLLar Caterpillar has become a leading firm by maximizing total customer value in the construc- tion equipment industry, despite a number of able competitors such as John Deere, Case, Komatsu, Volvo, and Hitachi and emerging ones such as LiuGong Machinery in China. First, Caterpillar produces high-performance equip- ment known for reliability and durability—key purchase considerations in heavy industrial equipment. The firm also makes it easy for customers to find the right product by providing a full line of construction equipment and a wide range of financial terms. Caterpillar maintains the largest number of independent construction-equipment dealers in the industry. These deal- ers all carry a complete line of Caterpillar products and are typically better trained and perform more reliably than compet- tors' dealers. Caterpillar has also built a worldwide parts and service system second to none in the industry. Customers recognize all the value Caterpillar creates in its offerings, allowing the firm to command a premium price 10 percent to 20 percent higher than competitors'. Caterpillar also makes strategic acquisitions to acquire new customers, such as pick- ing up mining equipment maker Bucyrus International for $8.6 billion in 2010. Despite a recession that brought hard times to its industry and battered many of its competitors' finances, Caterpillar was one of the best-performing stocks among the 30 companies in the Dow Jones Industrial Average coming out of the recession. Very often, managers conduct a customer value analysis to reveal the company's strengths and weaknesses relative to those of various competitors. The steps in this analysis are: 1. Identify the major attributes and benefits that customers value. Customers are asked what attributes, ben- efits, and performance levels they look for in choosing a product and vendors. Attributes and benefits should be defined broadly to encompass all the inputs to customers' decisions.8 2. Assess the quantitative importance of the different attributes and benefits. Customers are asked to rate the importance of different attributes and benefits. If their ratings diverge too much, the marketer should cluster them into different segments. 3. Assess the company's and competitors' performances on the different customer values against their rated im- portance. Customers describe where they see the company's and competitors' performances on each attribute and benefit. 4. Examine how customers in a specific segment rate the company's performance against a specific major com- petitor on an individual attribute or benefit basis. If the company's offer exceeds the competitor's offer on all important attributes and benefits, the company can charge a higher price (thereby earning higher profits), or it can charge the same price and gain more market share. 5. Monitor customer values over time. The company must periodically redo its studies of customer values and competitors' standings as the economy, technology, and product features change. Caterpillar's market success can be attributed in part to its focus on maximizing total customer value. So ur ce : J am es M at ti l/ Sh ut te rs to ck CReATing Long-TeRm LoyALTy ReLATionshiPs | chapter 5 131 ChoiCe proCesses anD impliCations Some marketers might argue the process we have described is too rational. Suppose the customer chooses the Komatsu tractor. How can we explain this choice? Here are three possibilities. 1. The buyer might be under orders to buy at the lowest price. The Caterpillar salesperson's task is then to con- vince the buyer's manager that buying on price alone will result in lower long-term profits and customer value for the buyer's company. 2. The buyer will retire before the company realizes the Komatsu tractor is more expensive to operate. The buyer will look good in the short run; he is maximizing personal benefit. The Caterpillar salesperson's task is to convince other people in the customer company that Caterpillar delivers greater customer value. 3. The buyer enjoys a long-term friendship with the Komatsu salesperson. In this case, Caterpillar's salesper- son needs to show the buyer that the Komatsu tractor will draw complaints from the tractor operators when they discover its high fuel cost and need for frequent repairs. The point is clear: Buyers operate under various constraints and occasionally make choices that give more weight to their personal benefit than to the company's benefit. Customer-perceived value is a useful framework that applies to many situations and yields rich insights. It suggests that the seller must assess the total customer benefit and total customer cost associated with each com- petitor's offer in order to know how its own offer rates in the buyer's mind. It also implies that the seller at a dis- advantage has two alternatives: increase total customer benefit or decrease total customer cost. The former calls for strengthening or augmenting the economical, functional, and psychological benefits of the offering's product, services, personnel, and image. The latter calls for reducing the buyer's costs by reducing the price or cost of own- ership and maintenance, simplifying the ordering and delivery process, or absorbing some buyer risk by offering a warranty. DeliVering high Customer Value Consumers have varying degrees of loyalty to specific brands, stores, and companies. Loyalty has been defined as "a deeply held commitment to rebuy or repatronize a preferred product or service in the future despite situational influences and marketing efforts having the potential to cause switching behavior."9 Table 5.1 lists brands with the highest customer loyalty, according to one 2012 survey. The value proposition consists of the whole cluster of benefits the company promises to deliver; it is more than the core positioning of the offering. For example, Volvo's core positioning has been "safety," but the buyer is prom- ised more than just a safe car; other benefits include good performance, design, and safety for the environment. The value proposition is thus a promise about the experience customers can expect from the company's market offering and their relationship with the supplier. Whether the promise is kept depends on the company's ability to manage its value delivery system. The value delivery system includes all the experiences the customer will have on the way to obtaining and using the offering. At the heart of a good value delivery system is a set of core business processes that help deliver distinctive consumer value.10 total Customer satisfaCtion In general, satisfaction is a person's feelings of pleasure or disappointment that result from comparing a product or service's perceived performance (or outcome) to expectations.11 If the performance or experience falls short of expectations, the customer is dissatisfied. If it matches expectations, the customer is satisfied. If it exceeds expec- tations, the customer is highly satisfied or delighted.12 Customer assessments of product or service performance depend on many factors, including the type of loyalty relationship the customer has with the brand.13 Consumers often form more favorable perceptions of a product with a brand they already feel positive about. Research has also shown an asymmetric effect of product perfor- mance and expectations on satisfaction: The negative effect on customer satisfaction of failing to meet expectations is disproportionately stronger than the positive effect of exceeding expectations.14 Although the customer-centered firm seeks to create high customer satisfaction, that is not its ultimate goal. Increasing customer satisfaction by lowering price or increasing services may result in lower profits. The company might be able to increase its profitability by means other than increased satisfaction (for example, by improving manufacturing processes or investing more in R&D). The company also has many stakeholders, including employees, dealers, suppliers, and stockholders. Spending more to increase customer satisfaction might divert funds from increasing the satisfaction of other "partners." Ultimately, the company must try to deliver a high level of customer satisfaction subject to also delivering accept- able levels to other stakeholders, given its total resources. 132 PART 3 | ConneCTing WiTh CusTomeRs 5.1 Top 30 Brands in Customer Loyalty Brand Category Rankings 2012 2011 Apple Tablet 1 N/A Amazon Tablet 2 N/A Apple Smart phone 3 2 Amazon Online retail 4 1 Apple Computer 5 5 Samsung Tablet 6 N/A Call of Duty Major league gaming 7 N/A Samsung Cellphone 8 4 Halo Major league gaming 9 N/A Twitter Social networks 10 20 Kindle E-reader 11 8 Mary Kay Cosmetics 12 10 Grey Goose Vodka 13 15 Google Search engine 14 16 YouTube Social networks 15 N/A Facebook Social networks 16 3 Dunkin' Donuts Coffee 17 12 Zappos Online retailer 18 6 Patron Tequila 19 9 Crest Whitestrips Tooth whitener 20 10 Walmart Discount retailer 21 13 Maybelline Cosmetics 22 14 Clinique Cosmetics, luxury 23 34 Ketel One Vodka 24 17 Hyundai Automotive 25 7 Samsung Smart phone 26 56 LG Cellphone 27 19 Mary Kay Facial moisturizer 28 28 Avis Car rental 29 23 LinkedIn Social networks 30 24 Source: "2012 Brand Keys Customer Loyalty Leaders List," www.brandkeys.com. CReATing Long-TeRm LoyALTy ReLATionshiPs | chapter 5 133 How do buyers form their expectations? Expectations result from past buying experience, friends' and associates' advice, public information and discourse, and marketers' and competitors' information and promises. If a company raises expectations too high, the buyer is likely to be disappointed. If it sets expectations too low, it won't attract enough buyers (although it will satisfy those who do buy).15 Some of today's most successful companies are raising expectations and delivering performances to match. Korean automaker Kia found success in the United States by launching low-cost, high-quality cars with enough reliability to offer 10-year, 100,000-mile warranties. monitorInG satisfaCtion Many companies are systematically measuring how well they treat customers, identifying the factors shaping sat- isfaction, and changing operations and marketing as a result.16 Wise firms measure customer satisfaction regularly because it is one key to customer retention.17 A highly satis- fied customer generally stays loyal longer, buys more as the company introduces new and upgraded products, talks favorably to others about the company and its products, pays less attention to competing brands and is less sensi- tive to price, offers product or service ideas to the company, and costs less to serve than new customers because transactions can become routine.18 The link between customer satisfaction and customer loyalty is not proportional, however. Suppose customer satisfaction is rated on a scale from 1 to 5. At a very low level of satisfaction (level 1), customers are likely to abandon the company and even bad-mouth it. At levels 2 to 4, customers are fairly satisfied but still find it easy to switch when a better offer comes along. At level 5, the customer is very likely to repurchase and even spread good word of mouth about the company. High satisfaction or delight creates an emotional bond with the brand or company, not just a rational preference. Xerox's senior management found its "completely satisfied" customers were six times more likely to repurchase Xerox products over the following 18 months than even its "very satis- fied" customers.19 The company needs to recognize, however, that customers define good performance differently. Good delivery could mean early delivery, on-time delivery, or order completeness, and two customers can report being "highly satisfied" for different reasons. One may be easily satisfied most of the time, and the other might be hard to please but was pleased on this occasion.20 It is also important to know how satisfied customers are with competitors to assess "share of wallet" or how much of the customer's spending the company's brand enjoys: The more highly the consumer ranks the company's brand in terms of satisfaction and loyalty, the more the customer is likely to spend on the brand.21 measurement teChniques Periodic surveys can track customers' overall satisfaction directly and ask additional questions to measure repurchase intention, likelihood or willingness to recommend the company and brand to others, and specific attribute or benefit perceptions likely to be related to customer satisfaction. The University of Michigan's Claes Fornell has developed the American Customer Satisfaction Index (ACSI) to measure consumers' perceived satisfaction with different firms, industries, economic sectors, and national economies.22 Research has shown a strong and consistent association between customer satisfaction, as measured by ACSI, and firm financial performance in terms of ROI, sales, long-term firm value (Tobin's Q), and other metrics.23 Table 5.2 displays some of the 2014 ACSI leaders. "Marketing Insight: Net Promoter and Customer Satisfaction" describes why some companies believe just one well-designed question is all that is necessary to assess customer satisfaction.24 Companies need to monitor their competitors' performance too. They can monitor customer loss rate and contact those who have stopped buying or who have switched to another supplier to find out why. Finally, as described in Chapter 3, companies can hire mystery shoppers to pose as potential buyers and report on strong and weak points experienced in buying the company's and competitors' products. Managers themselves can enter com- pany and competitor sales situations where they are unknown and experience firsthand the treatment they receive, or they can phone their own company with questions and complaints to see how employees handle the calls. influenCe of Customer satisfaCtion For customer-centered companies, customer satisfaction is both a goal and a marketing tool. Companies need to be especially concerned with their customer satisfaction level today because the Internet allows consumers to quickly spread both good and bad word of mouth to the rest of the world. Some customers set up their own Web sites to air grievances and galvanize protest, targeting high- profile brands such as United Airlines, Home Depot, and Mercedes-Benz.25 Companies that do achieve high customer satisfaction ratings make sure their target market knows it. Once they achieved number-one status in their category on J. D. Power's customer satisfaction ratings, Hyundai, American Express, Medicine Shoppe (a chain pharmacy), and Alaska Airways, among others, communicated that fact. 134 PART 3 | ConneCTing WiTh CusTomeRs 5.2 ACSI Scores by Industry Industry Firm Score Airlines Jet Blue 79 Apparel Levi-Strauss, V.F. 82 Automobiles & Light Vehicles Mercedes-Benz 84 Banks JPMorgan Chase 76 Breweries Anheuser-Busch InBev 81 Cellular Telephones Samsung 81 Department & Discount Stores Nordstrom 83 Fixed Line Telephone Service Verizon 73 Food Manufacturing H. J. Heinz, Quaker & General Mills 87 Health Insurance Blue Cross and Blue Shield 74 Hotels Marriott 81 Internet Brokerage Charles Schwab 84 Internet News & Information FOXNews.com & USATODAY.com 76 Internet Portals & Search Engines Google 83 Internet Retail Amazon 88 Internet Travel Orbitz 77 Life Insurance New York Life 80 Personal Care & Cleaning Products Clorox, Colgate-Palmolive & Unilever 85 Personal Computers Apple 84 Soft Drinks Dr Pepper Snapple 86 Supermarkets Publix 86 Wireless Telephone Service Verizon Wireless 75 Source: ACSI LLC; www.theacsi.org. ProduCt and serviCe QualitY Satisfaction will also depend on product and service quality. What exactly is quality? Various experts have defined it as "fitness for use," "conformance to requirements," and "freedom from variation." We will use the American Society for Quality's definition: Quality is the totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs.26 This is clearly a customer-centered defini- tion. We can say the seller has delivered quality whenever its product or service meets or exceeds the customers' expectations. A company that satisfies most of its customers' needs most of the time is called a high-quality company, but we need to distinguish between conformance quality and performance quality (or grade). A Lexus pro- vides higher performance quality than a Hyundai: The Lexus rides more smoothly, accelerates faster, and runs CReATing Long-TeRm LoyALTy ReLATionshiPs | chapter 5 135 Net Promoter and Customer Satisfaction Many companies make measuring customer satisfaction a top priority, but how should they go about doing it? Bain's Frederick Reichheld sug- gests only one customer question really matters: "How likely is it that you would recommend this product or service to a friend or colleague?" Reichheld was inspired in part by the experiences of Enterprise Rent-A-Car. When the company cut its customer satisfaction survey in 1998 from 18 questions to two—one about the quality of the rental experience and the other about the likelihood customers would rent from the company again—it found those who gave the highest ratings to their rental experience were three times as likely to rent again than those who gave the second-highest rating. The firm also found that diagnostic information managers collected from dissatisfied customers helped it fine-tune its operations. In a typical Net Promoter survey that follows Reichheld's thinking, customers are given a 1-to-10 scale on which to rate their likelihood of recommending the company. Marketers then subtract Detractors (those who gave a 0 to 6) from Promoters (those who gave a 9 or 10) to arrive at the Net Promoter Score (NPS). Customers who rate the brand with a 7 or 8 are deemed Passively Satisfied and are not included. A typi- cal set of NPS scores falls in the 10 percent to 30 percent range, but world-class companies can score over 50 percent. Some firms with top NPS scores in 2014 included USAA (82 percent), Amazon (64 percent), Southwest (62 percent), Wegmans (61 percent), Apple (72 percent), and Costco (82 percent). Reichheld has picked up many believers through the years. American Express, Dell, and Microsoft, among others, have all adopted the NPS metric. GE has tied 20 percent of its managers' bonuses to its NPS scores. When the European unit of GE Healthcare scored low, follow-up research revealed that response times to customers were a major problem. After it overhauled its call center and put more special- ists in the field, GE Healthcare's Net Promoter scores jumped 10 to 15 points. Philips has focused on engaging Promoters as well as ad- dressing the concerns of Detractors, developing a Reference Promoter program to get customers willing to recommend the brand to actually do so through taped testimonials. Reichheld says he developed NPS in response to overly compli- cated—and thus ineffective—customer surveys. So it's not surprising that client firms praise its simplicity and strong relationship to financial performance. When Intuit applied Net Promoter to its TurboTax product, feedback revealed dissatisfaction with the software's rebate procedure. After Intuit dropped the proof-of-purchase requirement, sales jumped 6 percent. Net Promoter is not without critics. A common criticism is that many different patterns of responses may lead to the same NPS. For example, NPS equals 20 percent when Promoters equal 20 percent, Passives equal 80 percent, and Detractors equal 0 percent, as well as when Promoters equal 60 percent, Passives equal 0 percent, and Detractors equal 40 percent, but the managerial implications of the two patterns of responses are very different. Another common criticism is that it is not a useful predictor of future sales or growth because it ignores important cost and revenue considerations. Others question its actual research support. One comprehensive academic study of 21 firms and more than 15,000 consumers in Norway failed to find NPS superior to any other metrics such as the ACSI measure. Some have criticized both NPS and ACSI measures for not fully accounting for ex-customers or those who were never customers. Peoples' opinions about any of the single items or indices measuring customer satisfaction depend in part on how they value the trade-off between simplicity and complexity. Sources: Fred Reichheld, Ultimate Question: For Driving Good Profits and True Growth (Cambridge, MA: Harvard Business School Press, 2006); Fred Reichheld, "The One Number You Need to Grow," Harvard Business Review, December 2003; Neil A. Morgan and Lopo Leotte Rego, "The Value of Different Customer Satisfaction and Loyalty Metrics in Predicting Business Performance," Marketing Science 25 (September–October 2006), pp. 426–39; Timothy L. Keiningham, Lerzan Aksoy, Bruce Cooil, and Tor W. Andreassen, "Linking Customer Loyalty to Growth," MIT Sloan Management Review (Summer 2008), pp. 51–57; Suhail Khan, "How Philips Uses Net Promoter Scores to Understand Customers," HBR Blog Network, May 10, 2011; Robert East, Jenni Romaniuk, and Wendy Lomax, "The NPS and ACSI: A Critique and an Alternative Metric," International Journal of Market Research 53, no. 3 (2011), pp. 327–45; Randy Hanson, "Life after NPS," Marketing Research (Summer 2011), pp. 8–11; Jenny van Doorn, Peter S. H. Leeflang, and Marleen Tijs, "Satisfaction as a Predictor of Future Performance: A Replication," International Journal of Research in Marketing 30 (September 2013), pp. 314–18; www.satmetrix.com. marketing insight problem-free longer. Yet both a Lexus and a Hyundai deliver the same conformance quality if all the units de- liver their promised quality. impaCt of quality Product and service quality, customer satisfaction, and company profitability are intimately connected. Higher levels of quality result in higher levels of customer satisfaction, which support higher prices and (often) lower costs. Studies have shown a high correlation between relative product quality and company profitability.27 The drive to produce goods that are superior in world markets has led some countries to recognize or award prizes to companies that exemplify the best quality practices, such as the Deming Prize in Japan, the Malcolm Baldrige National Quality Award in the United States, and the European Quality Award. Companies that have lowered costs to cut corners have paid the price when the quality of the customer experi- ence suffers. Home Depot ran into trouble when it became overly focused on cost cutting.28 136 PART 3 | ConneCTing WiTh CusTomeRs HOMe DePOt When Home Depot decided to expand into the contractor supply business, while also cut- ting costs and streamlining operations in 1,816 U.S. stores, it replaced many full-time workers with part-timers who soon made up about 40 percent of store staff. The chain's ACSI of customer satisfaction dropped to the bottom among major U.S. retailers, 11 points behind customer-friendly competitor Lowe's, and its share price slid 24 percent during the biggest home improvement boom in U.S. history. To turn the company around, new management simplified operations. Store managers were given three goals to achieve—cleaner warehouses, stocked shelves, and top customer service. The 200-plus e-mails sent from the corporate office on a typical Monday were replaced with one—the rest of the information was made available online. In a new practice called "power hours," on weekdays from 10 am to 2 pm and all day Saturday and Sunday, employ- ees were to do nothing but serve customers. To make sure the new strategy stuck, performance reviews were changed so store employees were evaluated almost entirely on customer service. These and other customer-service initiatives increased store labor hours dedicated to customer-facing activity from 40 percent to 53 percent. As the recession wore on, improved customer service, as well as new product-assortment practices and centralized distribution centers, helped Home Depot reestablish its marker leadership and distance itself from Lowe's. Total quality is everyone's job, just as marketing is everyone's job. Nevertheless, marketing plays an especially important role in helping companies identify and deliver high-quality goods and services to target customers. How do marketers help? • They correctly identify customers' needs and requirements. • They communicate customer expectations properly to product designers. • They make sure customers' orders are filled correctly and on time. • They check that customers have received proper instructions, training, and technical assistance in the use of the product. • They stay in touch with customers after the sale to ensure they are, and remain, satisfied. • They gather customer ideas for product and service improvements and convey them to the appropriate departments. When marketers do all this, they make substantial contributions to total quality management and customer satisfaction as well as to customer and company profitability. Maximizing Customer Lifetime Value Ultimately, marketing is the art of attracting and keeping profitable customers. Yet every company loses money on some of its customers. The well-known 80–20 rule states that 80 percent or more of the company's profits come from the top 20 percent of its customers. Some cases may be more extreme—the most profitable 20 percent of customers (on a per capita basis) may contribute as much as 150 to 300 percent of profitability. The least prof- itable 10 to 20 percent, on the other hand, can actually reduce profits between 50 and 200 percent per account, Enterprise Rent-A-Car found its customer satisfaction surveys were more effective with just two questions. So ur ce : U IG v ia G et ty I m ag es CReATing Long-TeRm LoyALTy ReLATionshiPs | chapter 5 137 with the middle 60 to 70 percent breaking even.29 The implication is that a company could improve its profits by "firing" its worst customers. Companies need to concern themselves with Return on Customer (ROC) and how efficiently they create value from the customers and prospects available.30 It's not always the company's largest customers who demand consid- erable service and deep discounts or who yield the most profit. The smallest customers pay full price and receive minimal service, but the costs of transacting with them can reduce their profitability. Midsize customers who re- ceive good service and pay nearly full price are often the most profitable. Customer ProfItabIlItY A profitable customer is a person, household, or company that over time yields a revenue stream exceeding by an acceptable amount the company's cost stream for attracting, selling, and serving that customer. Note the emphasis is on the lifetime stream of revenue and cost, not the profit from a particular transaction.31 Marketers can assess customer profitability individually, by market segment, or by channel. Many companies measure customer satisfaction, but few measure individual customer profitability.32 Banks claim this is a difficult task because each customer uses different banking services and the transactions are logged in different departments. However, the number of unprofitable customers in their customer database has appalled banks that have succeeded in linking customer transactions. Some report losing money on more than 45 percent of their retail customers. Customer profitability analysis A useful type of profitability analysis is shown in Figure 5.3.33 Customers are arrayed along the columns and products along the rows. Each cell contains a symbol representing the profitability of selling that product to that customer. Customer 1 is very profitable; he buys two profit-making products (P1 and P2). Customer 2 yields mixed profitability; she buys one profitable product (P1) and one unprofitable product (P3). Customer 3 is a losing customer because he buys one profitable product (P1) and two unprofitable products (P3 and P4). What can the company do about customers 2 and 3? (1) It can raise the price of its less profitable products or eliminate them, or (2) it can try to sell customers 2 and 3 its profit-making products. Unprofitable custom- ers who defect should not concern the company. In fact, the company should encourage them to switch to competitors. Customer profitability analysis (CPA) is best conducted with the tools of an accounting technique called activity-based costing (ABC). ABC accounting tries to identify the real costs associated with serving each cus- tomer—the costs of products and services based on the resources they consume. The company estimates all rev- enue coming from the customer, less all costs. With ABC, the costs in a business-to-business setting should include the cost not only of making and distribut- ing the products and services but also of taking phone calls from the customer, traveling to visit the customer, pay- ing for entertainment and gifts—all the company's resources that go into serving that customer. ABC also allocates indirect costs like clerical costs, office expenses, supplies, and so on, to the activities that use them, rather than in some proportion to direct costs. Both variable and overhead costs are tagged back to each customer. Companies that fail to measure their costs correctly are also not measuring their profit correctly and are likely to misallocate their marketing effort. The key to effectively employing ABC is to define and judge "activities" High-profit customer Mixed-bag customer Losing customer + + + Customers C1 C2 C3 Highly profitable product + Profitable product P2 P1 P3 P4 Products – – – Unprofitable product Highly unprofitable product | Fig. 5.3 | Customer-Product Profitability Analysis 138 PART 3 | ConneCTing WiTh CusTomeRs properly. One time-based solution calculates the cost of one minute of overhead and then decides how much of this cost each activity uses.34 measurInG Customer lIfetIme value The case for maximizing long-term customer profitability is captured in the concept of customer lifetime value.35 Customer lifetime value (CLV) describes the net present value of the stream of future profits expected over the customer's lifetime purchases. The company must subtract from its expected revenues the expected costs of at- tracting, selling, and servicing the account of that customer, applying the appropriate discount rate (say, between 10 and 20 percent, depending on cost of capital and risk attitudes). Lifetime value calculations for a product or service can add up to tens of thousands of dollars or even run to six figures.36 Many methods exist to measure CLV.37 "Marketing Memo: Calculating Customer Lifetime Value" illustrates one. CLV calculations provide a formal quantitative framework for planning customer investment and help mar- keters adopt a long-term perspective. One challenge, however, is to arrive at reliable cost and revenue estimates. Marketers who use CLV concepts must also take into account the short-term, brand-building marketing activities that help increase customer loyalty. One firm that has excelled in taking a short-run and long-run view of customer loyalty is Harrah's.38 HarraH's Harrah's Entertainment, led by one-time academic Gary Loveman, has gone in a different direc- tion from the big players in the Las Vegas gaming industry whose business models are based on building bigger and more opulent casinos. Back in 1997, Harrah's launched a pioneering loyalty program that pulled all customer data into a central- ized warehouse and then ran sophisticated analyses to better understand the value of the investments the casino made in its customers. Harrah's has more than 40 million active members in its Total Rewards loyalty program, a system it has fine- tuned to achieve near-real-time analysis: As customers interact with slot machines, check into casinos, or buy meals, they receive reward offers—food vouchers or gambling credits, for example—based on predictive analyses from its database. Harrah's spends $100 million a year on information technology. The company has now identified hundreds of highly specific customer segments, and by targeting offers to each of them, it can almost double its share of customers' gaming budgets and generate $6.4 billion annually (80 percent of its gaming revenue). Research has shown that contrary to conventional wisdom, the most profitable customers are not the jet-setting high rollers, but older slot machine players. Harrah's also learned to dramatically cut back on its traditional ad spending, largely replacing it with direct mail and e-mail—a good cus- tomer may receive as many as 150 pieces in a year. Harrah's also rewards staff and bases compensation in part on cus- tomer service scores. To better fine-tune its Web sites and online ads, Harrah's monitors customer reviews and comments on TripAdvisor.com as well as social media sites such as Twitter and Facebook. After the company made changes to reflect customer interest in hotel amenities and the iconic views of the Las Vegas strip from its Paris Las Vegas hotel and casino, online bookings increased by double digits. Data from the Total Rewards program even influenced Harrah's decision to buy Caesars Entertainment, when company research revealed that most of Harrah's customers who visited Las Vegas without staying at a Harrah's-owned hotel were going to Caesars Palace. Harrah's latest loyalty innovation is a mobile marketing program that sends time-based and location-based offers to customers' mobile devices in real time. attraCtInG and retaInInG Customers Companies seeking to expand profits and sales must invest time and resources searching for new customers. To generate leads, they advertise in media that will reach new prospects, send direct mail and e-mails to possible new prospects, send their salespeople to participate in trade shows where they might find new leads, purchase names from list brokers, and so on. Different acquisition methods yield customers with varying CLVs. One study showed that customers acquired through the offer of a 35 percent discount had about one-half the long-term value of customers acquired without any discount.39 Many of these customers were more interested in the offer than in the product itself. Similarly, many local restaurants, car wash services, beauty salons, and dry cleaners have launched "daily deal" campaigns from Groupon and LivingSocial to attract new customers. Unfortunately, these campaigns have some- times turned out to be unprofitable in the long run because coupon users were not easily converted into loyal customers.40 CReATing Long-TeRm LoyALTy ReLATionshiPs | chapter 5 139 Harrah's uses sophisticated customer analytics to guide its marketing activities, including filling rooms in its Paris Las Vegas hotel and casino. So ur ce : A FP /G et ty I m ag es Researchers and practitioners have used many different approaches for modeling and estimating CLV. Columbia's Don Lehmann and Harvard's Sunil Gupta recommend the following formula to estimate the CLV for a not-yet-acquired customer: CLV = a T t = 0 1pt - ct2 rt 11 + i 2 t - AC where pt = price paid by a consumer at time t, ct = direct cost of servicing the customer at time t, i = discount rate or cost of capital for the firm, rt = probability of customer repeat buying or being "alive" at time t, AC = acquisition cost, and T = time horizon for estimating CLV. A key decision is what time horizon to use for estimating CLV. Typically, three to five years is reasonable. With this information and estimates of other vari- ables, we can calculate CLV using spreadsheet analysis. Gupta and Lehmann illustrate their approach by calculating the CLV of 100 customers over a 10-year period (see Table 5.3). In this example, the firm acquires 100 customers with an acquisition cost per customer of $40. Therefore, in year 0, it spends $4,000. Some of these customers defect each year. The present value of the profits from this cohort of customers over 10 years is $13,286.52. The net CLV (after deducting acquisition costs) is $9,286.52, or $92.87 per customer. Using an infinite time horizon avoids having to select an arbitrary time horizon for calculating CLV. In the case of an infinite time horizon, if margins (price minus cost) and retention rates stay constant over time, the future CLV of an existing customer simplifies to the following: CLV = a ∞ t = 1 mr t 11 + i 2 t = m r 11 + i - r 2 In other words, CLV simply becomes margin (m) times a margin multiple [r/(1 + i – r)]. Table 5.4 shows the margin multiple for various combinations of r and i and a simple way to estimate CLV of a customer. When retention rate is 80 percent and discount rate is 12 percent, the margin multiple is about two and a half. Therefore, the future CLV of an existing customer in this scenario is simply his or her annual margin multiplied by 2.5. Sources: Sunil Gupta and Donald R. Lehmann, "Models of Customer Value," Berend Wierenga, ed., Handbook of Marketing Decision Models (Berlin, Germany: Springer Science and Business Media, 2007); Sunil Gupta and Donald R. Lehmann, "Customers as Assets," Journal of Interactive Marketing 17, no. 1 (Winter 2006), pp. 9–24; Sunil Gupta and Donald R. Lehmann, Managing Customers as Investments (Upper Saddle River, NJ: Wharton School Publishing, 2005); Peter Fader, Bruce Hardie, and Ka Lee, "RFM and CLV: Using Iso-Value Curves for Customer Base Analysis," Journal of Marketing Research 42, no. 4 (November 2005), pp. 415–30; Sunil Gupta, Donald R. Lehmann, and Jennifer Ames Stuart, "Valuing Customers," Journal of Marketing Research 41, no. 1 (February 2004), pp. 7–18. Calculating Customer Lifetime Valuemarketing memo 140 PART 3 | ConneCTing WiTh CusTomeRs Promotional campaigns that reinforce the value of the brand, even if targeted to the already loyal, may be more likely to attract higher-value new customers. Two-thirds of the considerable growth spurred by UK mobile com- munication leader O2's loyalty strategy was attributed to recruitment of new customers; the remainder came from reduced defection.41 reDuCing DefeCtion It is not enough to attract new customers; the company must also keep them and increase their business.42 Too many companies suffer from high customer churn or defection. Adding customers here is like adding water to a leaking bucket. Cellular carriers and cable TV operators are plagued by "spinners," customers who switch carriers at least three times a year looking for the best deal. Many carriers lose 25 percent of their subscribers each year, at an estimated cost of $2 billion to $4 billion. Defecting customers cite unmet needs and expectations, poor product/service qual- ity and high complexity, and billing errors.43 To reduce the defection rate, the company must: 1. Define and measure its retention rate. For a magazine, subscription renewal rate is a good measure of reten- tion. For a college, it could be first- to second-year retention rate or class graduation rate. 2. Distinguish the causes of customer attrition and identify those that can be managed better. Not much can be done about customers who leave the region or go out of business, but poor service, shoddy products, and high prices can all be addressed.44 3. Compare the lost customer's lifetime value to the costs of reducing the defection rate. As long as the cost to dis- courage defection is lower than the lost profit, spend the money to try to retain the customer. table 5.3 A Hypothetical Example to Illustrate CLV Calculations Year 0 Year 1 Year 2 Year 3 Year 4 Year 5 Year 6 Year 7 Year 8 Year 9 Year 10 Number of Customers 100 90 80 72 60 48 34 23 12 6 2 Revenue per Customer 100 110 120 125 130 135 140 142 143 145 Variable Cost per Customer 70 72 75 76 78 79 80 81 82 83 Margin per Customer 30 38 45 49 52 56 60 61 61 62 Acquisition Cost per Customer 40 Total Cost or Profit –4,000 2,700 3,040 3,240 2,940 2,496 1,904 1,380 732 366 124 Present Value –4,000 2,454.55 2,512.40 2,434.26 2,008.06 1,549.82 1,074.76 708.16 341.48 155.22 47.81 table 5.4 Margin Multiple Discount Rate Retention Rate 10% 12% 14% 16% 60% 1.20 1.5 1.11 1.07 70% 1.75 1.67 1.59 1.52 80% 2.67 2.50 2.35 2.22 90% 4.50 4.09 3.75 3.46 CReATing Long-TeRm LoyALTy ReLATionshiPs | chapter 5 141 retention DynamiCs Figure 5.4 shows the main steps in attracting and retaining customers, imagined in terms of a funnel, and some sample questions to measure customer progress through the funnel. The marketing funnel identifies the percentage of the potential target market at each stage in the decision process, from merely aware to highly loyal. Consumers must move through each stage before becoming loyal customers. Some marketers extend the funnel to include loyal customers who are brand advocates or even partners with the firm. By calculating conversion rates—the percentage of customers at one stage who move to the next—the funnel allows marketers to identify any bottleneck stage or barrier to building a loyal customer franchise. If the percent- age of recent users is significantly lower than triers, for instance, something might be wrong with the product or service that prevents repeat buying. The funnel also emphasizes how important it is not just to attract new customers but to retain and cultivate existing ones. Satisfied customers are the customer relationship capital. If the company were sold, the acquiring company would pay not only for the plant and equipment and brand name but also for the delivered cus- tomer base, the number and value of customers who will do business with the new firm. Consider these data about customer retention:45 • Acquiring new customers can cost five times more than satisfying and retaining current ones. It requires a great deal of effort to induce satisfied customers to switch from their current suppliers. • The average company loses 10 percent of its customers each year. • A 5 percent reduction in the customer defection rate can increase profits by 25 percent to 85 percent, depend- ing on the industry. • Profit rate tends to increase over the life of the retained customer due to increased purchases, referrals, price premiums, and reduced operating costs to service. Aware Open to trial Trier (nonrejec- ters) Regular user (e.g., At least once every 2 weeks) Recent user (e.g., Once in past 3 months) Most often used • I have heard of the brand. • I am open to trying the brand but have not done so. • I have tried the brand and would use again but have not done so in the past 3 months. • I have used the brand in the past 3 months but am not a regular user. • I am a regular user but this is not my most often used brand. • I use this brand most often even though I do use other brands. • I always use this brand as long as it is available. Target market Loyal | Fig. 5.4 | The Marketing Funnel Whole Foods builds customer loyalty through its skillful procurement and merchandising of natural and organic foods. So ur ce : C ou rt es y of W ho le F oo ds M ar ke t. " W ho le F oo ds M ar ke t" is a r eg is te re d t ra de m ar k of W ho le F oo ds M ar ke t IP , L .P . 142 PART 3 | ConneCTing WiTh CusTomeRs managing the Customer base Customer profitability analysis and the marketing funnel help marketers decide how to manage groups of customers that vary in loyalty, profitability, risk, and other factors.46 A key driver of shareholder value is the aggregate value of the customer base. Winning companies improve that value by excelling at strategies like the following: • Reducing the rate of customer defection. Selecting and training employees to be knowledgeable and friendly increases the likelihood that customers' shopping questions will be answered satisfactorily. Whole Foods, the world's largest retailer of natural and organic foods, woos customers with a commitment to market the best foods and a team concept for employees. • Increasing the longevity of the customer relationship. The more engaged with the company, the more likely a customer is to stick around. Nearly 65 percent of new Honda purchases replace an older Honda. Drivers cited Honda's reputation for creating safe vehicles with high resale value. Seeking consumer advice can be an effec- tive way to engage consumers with a brand and company.47 • Enhancing the growth potential of each customer through "share of wallet," cross-selling, and up- selling.48 Sales from existing customers can be increased with new offerings and opportunities. Harley- Davidson sells more than motorcycles and accessories like gloves, leather jackets, helmets, and sunglasses. Its dealerships sell more than 3,000 items of clothing—some even have fitting rooms. Licensed goods sold by others range from predictable items (shot glasses, cue balls, and Zippo cigarette lighters) to the more surpris- ing (cologne, dolls, and cell phones). Cross-selling isn't profitable if the targeted customer requires a lot of services for each product, generates a lot of product returns, cherry-picks promotions, or limits total spend- ing across all products.49 • Making low-profit customers more profitable or terminating them. To avoid trying to terminate them, marketers can instead encourage unprofitable customers to buy more or in larger quantities, forgo certain features or services, or pay higher amounts or fees.50 Banks, phone companies, and travel agencies all now charge for once-free services to ensure minimum revenue levels from these customers. Firms can also discourage those with questionable profitability prospects. Progressive Insurance screens custom- ers and diverts the potentially unprofitable to competitors.51 However, "free" customers who pay little or nothing and are subsidized by paying customers—as in print and online media, employment and dating services, and shopping malls—may still create useful direct and indirect network effects, an important function.52 • Focusing disproportionate effort on high-profit customers. The most profitable customers can be treated in a special way. Thoughtful gestures such as birthday greetings, small gifts, or invitations to special sports or arts events can send them a strong positive signal. buIlDINg loYalTY Companies that want to form strong, tight connections to customers should heed some specific considerations (see Figure 5.5). One set of researchers sees retention-building activities as adding financial benefits, social ben- efits, or structural ties.53 Next we describe these marketing activities that improve loyalty and retention. interaCt Closely with Customers Connecting customers, clients, patients, and others directly with company employees is highly motivating and informative. End users can offer tangible proof of the positive impact of the company's products and services, express appreciation for employee contributions, and elicit empathy. A brief visit from a student who had received a scholarship motivated university fundraisers to increase their weekly productivity by 400 percent; a patient's photograph inspired radiologists to improve the accuracy of their diagnostic findings by 46 percent.54 • Create superior products, services, and experiences for the target market. • Get cross-departmental participation in planning and managing the customer satisfaction and retention process. • Integrate the "Voice of the Customer" to capture their stated and unstated needs or requirements in all business decisions. • Organize and make accessible a database of information on individual customer needs, preferences, contacts, purchase frequency, and satisfaction. • Make it easy for customers to reach appropriate company staff and express their needs, perceptions, and complaints. • Assess the potential of frequency programs and club marketing programs. • Run award programs recognizing outstanding employees. | Fig. 5.5 | Forming Strong Customer Bonds CReATing Long-TeRm LoyALTy ReLATionshiPs | chapter 5 143 Listening to customers is crucial to customer relationship management. Some companies have created an ongoing mechanism that keeps their marketers permanently plugged in to frontline customer feedback. • Deere & Company, which makes John Deere tractors and has a superb record of customer loyalty—nearly 98 percent annual retention in some product areas—has used retired employees to interview defectors and customers.55 • Chicken of the Sea has 80,000 members in its Mermaid Club, a core-customer group that receives special of- fers, health tips and articles, new product updates, and an informative e-newsletter. In return, club members provide valuable feedback on what the company is doing and thinking of doing. Their input has helped design the brand's Web site, develop messages for TV advertising, and craft the look and text on the packaging.56 • Build-A-Bear Workshop uses a "Cub Advisory Board" as a feedback and decision-input body. The board is made up of twenty 5- to 16-year-olds who review new-product ideas and give a "paws up or down." Many products in the stores are customer ideas.57 But listening is only part of the story. It is also important to be a customer advocate and, as much as possible, take the customers' side and understand their point of view.58 DeVelop loyalty programs Frequency programs (FPs) are designed to reward customers who buy frequently and in substantial amounts. They can help build long-term loyalty with high CLV customers, creating cross-selling opportunities in the process. Pioneered by the airlines, hotels, and credit card companies, FPs now exist in many other industries. Most supermarket and drug store chains offer price club cards that grant discounts on certain items. Typically, the first company to introduce an FP in an industry gains the most benefit, especially if competitors are slow to respond. After competitors react, FPs can become a financial burden to all the offering companies, but some companies are more efficient and creative in managing them. Some FPs generate rewards in a way that locks customers in and creates significant switching costs. FPs can also produce a psychological boost and a feeling of being special and elite that customers value.59 Club membership programs attract and keep those customers responsible for the largest portion of business. Clubs can be open to everyone who purchases a product or service or limited to an affinity group or those willing to pay a small fee. Although open clubs are good for building a database or snagging customers from competitors, limited membership is a more powerful long-term loyalty builder. Fees and membership conditions prevent those with only a fleeting interest in a company's products from joining. Apple encourages owners of its computers to form local Apple user groups. There are hundreds of groups, ranging in size from fewer than 30 members to more than 1,000. The groups provide Apple owners with opportu- nities to learn more about their computers, share ideas, and get product discounts. They sponsor special activities and events and perform community service. A visit to Apple's Web site will help a customer find a nearby user group.60 Create institutional ties The company may supply business customers with special equipment or computer links that help them manage orders, payroll, and inventory. Customers are less inclined to switch to another supplier when it means high capital costs, high search costs, or the loss of loyal-customer discounts. McKesson Corporation, a leading pharmaceutical wholesaler, invested millions of dollars in EDI (Electronic Data Interchange) capabilities to help its independent-pharmacy customers manage inventory, order-entry processes, and shelf space. Another example is Milliken & Company, which provides proprietary software programs, marketing research, sales training, and sales leads to loyal customers. branD CommunitIes Thanks to the Internet, companies are interested in collaborating with consumers to create value through com- munities built around brands. A brand community is a specialized community of consumers and employees whose identification and activities focus around the brand.61 Three characteristics identify brand communities:62 1. A "consciousness of kind," or a sense of felt connection to the brand, company, product, or other community members; 2. Shared rituals, stories, and traditions that help convey the meaning of the community; and 3. A shared moral responsibility or duty to both the community as a whole and individual community members. types of branD Communities Brand communities come in many different forms.63 Some arise organically from brand users, such as the Atlanta MGB riders club and the Porsche Rennlist online discussion 144 PART 3 | ConneCTing WiTh CusTomeRs group. Others are company-sponsored and facilitated, such as Club Green Kids (official kids' fan club of the Boston Celtics) and the Harley Owners Group (H.O.G.).64 HarLey-DaViDsOn Founded in 1903 in Milwaukee, Wisconsin, Harley-Davidson has twice narrowly escaped bankruptcy but is today one of the most recognized motor vehicle brands in the world. In dire financial straits in the 1980s, Harley licensed its name to such ill-advised ventures as cigarettes and wine coolers. Although consumers loved the brand, sales were depressed by product-quality problems, so Harley began its return to greatness by improving manu- facturing processes. It also developed a strong brand community in the form of an inclusive owners' club, called the Harley Owners Group (H.O.G.), which sponsors bike rallies, charity rides, and other motorcycle events and now numbers more than 1 million members in some 1,400 chapters. H.O.G. benefits include a magazine called Hog Tales, a touring handbook, emer- gency road service, a specially designed insurance program, theft reward service, discount hotel rates, and a Fly & Ride pro- gram enabling members to rent Harleys on vacation. The company also maintains an extensive Web site devoted to H.O.G. with information about club chapters and events and a special members-only section. Harley is active with social media too and boasts more than 3.3 million Facebook fans. One fan inspired a digital video and Twitter campaign dubbed E Pluribus Unum—"Out of Many, One"—where Harley riders from all walks of life show their diversity and their pride in their bikes. Companies large and small can build brand communities. When New York's Signature Theatre Company built a new 70,000-square-foot facility for its shows, it made sure there was a central hub where casts, crew, playwrights, and audiences for all productions could mingle and interact.65 Online, marketers can tap into social media such as Facebook, Twitter, and blogs or create their own online community. Members can recommend products, share reviews, create lists of recommendations and favorites, or socialize together online. Online forums can be especially helpful in a business-to-business setting for professional development and feedback opportunities. The Kodak Grow Your Biz blog is a place for members to learn and share insights about how Kodak products, services, and technologies can improve important company or industry business performance.66 The Pitney Bowes User Forum is a place for members to discuss issues related to Pitney Bowes equipment and to mailing and marketing in general. Members often answer each other's business questions, though Pitney Bowes customer service representatives are available for any particularly difficult support questions.67 maximizing the benefits of branD Communities A strong brand community results in a more loyal, committed customer base. One study showed that a multichannel retailer of books, CDs, and DVDs enjoyed long-term incremental revenue of 19 percent from customers—what the authors called "social dollars"— after customers joined an online brand community. The more "connected" a member of the community was, the greater the likelihood he or she would spend more.68 A brand community can be a constant source of inspiration and feedback for product improvements or innova- tions. The activities and advocacy of members of a brand community can also substitute to some degree for activi- ties the firm would otherwise have to engage in, creating greater marketing effectiveness and efficiency as a result.69 Harley-Davidson has built an active brand community through its Harley Owner's Group which boasts more than one million members. So ur ce : N ic ho la s J R ei d/ G et ty I m ag es CReATing Long-TeRm LoyALTy ReLATionshiPs | chapter 5 145 To better understand how brand communities work, one comprehensive study examined communities around brands as diverse as StriVectin cosmeceutical, BMW Mini auto, Jones soda, Tom Petty & the Heartbreakers rock and roll band, and Garmin GPS devices. Using multiple research methods such as "netnographic" research with online forums, participant and naturalistic observation of community activities, and in-depth interviews with community members, the researchers found 12 value creation practices taking place. They divided them into four categories—social networking, community engagement, impression management, and brand use—summarized in Table 5.5. Building a positive, productive brand community requires careful thought and implementation.70 One set of researchers offers these recommendations for making online brand communities more effective:71 1. Enhance the timeliness of information exchanged. Set appointed times for topic discussion; give rewards for timely, helpful responses; increase access points to the community. 2. Enhance the relevance of information posted. Keep the focus on topic; divide the forum into categories; en- courage users to preselect interests. 3. Extend the conversation. Make it easier for users to express themselves; don't set limits on length of responses; allow user evaluation of the relevance of posts. 4. Increase the frequency of information exchanged. Launch contests; use familiar social networking tools; create special opportunities for visitors; acknowledge helpful members. table 5.5 Value Creation Practices SoCIal NeTWoRkINg Welcoming Greeting new members, beckoning them into the fold, and assisting in their brand learning and community socialization. empathizing Lending emotional and/or physical support to other members, including support for brand-related trials (product failure, customizing) and/or for nonbrand-related life issues (illness, death, job). governing Articulating the behavioral expectations within the brand community. ImPReSSIoN maNagemeNT evangelizing Sharing the brand "good news," inspiring others to use, and preaching from the mountaintop. Justifying Deploying rationales generally for devoting time and effort to the brand and collectively to outsiders and marginal mem- bers in the boundary. CommuNITy eNgagemeNT Staking Recognizing variance within the brand community membership and marking intragroup distinction and similarity. milestoning Noting seminal events in brand ownership and consumption. Badging Translating milestones into symbols and artifacts. Documenting Detailing the brand relationship journey in a narrative way, often anchored by and peppered with milestones. BRaND uSe grooming Cleaning, caring for, and maintaining the brand or systematizing optimal use patterns. Customizing Modifying the brand to suit group-level or individual needs. This includes all efforts to change the factory specs of the product to enhance performance. Commoditizing Distancing/approaching the marketplace in positive or negative ways. May be directed at other members (you should sell/should not sell that) or may be directed at the firm through explicit link or through presumed monitoring of the site (you should fix this/do this/change this). Source: Adapted from Hope Jensen Schau, Albert M. Muniz, and Eric J. Arnould, "How Brand Community Practices Create Value," Journal of Marketing 73 (September 2009), pp. 30–51. 146 PART 3 | ConneCTing WiTh CusTomeRs WIn-baCks Regardless of how hard companies may try, some customers inevitably become inactive or drop out. The challenge is to reactivate them through win-back strategies.72 It's often easier to reattract ex-customers (because the company knows their names and histories) than to find new ones. Exit interviews and lost- customer surveys can uncover sources of dissatisfaction and help win back only those with strong profit potential.73 Cultivating Customer Relationships Companies are using information about customers to enact precision marketing designed to build strong long- term relationships.74 Information is easy to differentiate, customize, personalize, and dispatch over networks at incredible speed. But that capability cuts both ways. For instance, customers now comparison-shop quickly and easily through sites such as Bizrate.com, Shopping.com, and PriceGrabber.com, and Epinions.com and Yelp.com let them share information about their product and service experiences with others. Company empowerment has been matched by customer empowerment, and companies have to adjust to shifts in the nature and strength of their customer relationships. Customer relatIonshIP manaGement Customer relationship management (CRM) is the process of carefully managing detailed information about individual customers and all customer "touch points" to maximize loyalty.75 CRM is important because a major driver of company profitability is the aggregate value of the company's customer base. A related concept, cus- tomer value management (CVM), describes the company's optimization of the value of its customer base. CVM focuses on the analysis of individual data on prospects and customers to develop marketing strategies to acquire and retain customers and drive customer behavior.76 A customer touch point is any occasion when a customer encounters the brand and product—from actual ex- perience to personal or mass communications to casual observation. For a hotel, the touch points include reserva- tions, check-in and checkout, frequent-stay programs, room service, business services, exercise facilities, laundry service, restaurants, and bars. The Four Seasons relies on personal touches, such as a staff that always addresses guests by name, high-powered employees who understand the needs of sophisticated business travelers, and at least one best-in-region facility, such as a premier restaurant or spa.77 CRM enables companies to provide excellent real-time customer service through the effective use of indi- vidual account information. Based on what they know about each valued customer, they can customize market offerings, services, programs, messages, and media. Companies' increased ability to track and market to indi- vidual customers is not without its controversies, as "Marketing Insight: The Behavioral Targeting Controversy" highlights. personalizing marketing Widespread Internet usage allows marketers to abandon the mass-market practices that built brand powerhouses in the 1950s, 1960s, and 1970s for new approaches that are a throwback to marketing practices from a century ago, when merchants literally knew their customers by name. Personalizing marketing is about making sure the brand and its marketing are as personally relevant as possible to as many customers as possible—a challenge, given that no two customers are identical. Companies are using e-mail, Web sites, call centers, databases, and database software to foster continuous contact between company and customer. Although technology can help with customer relationship management, firms have to be careful not to roll out too many automated-response phone systems or social-networking tools as ways to satisfy customer service requests. Many customers still prefer to talk to a live representative to receive more personal service—an ongoing priority in marketing.78 Companies are recognizing the role of the personal component in CRM and its influence once customers make actual contact with the company. Employees can create strong bonds with customers by individualiz- ing and personalizing relationships. Consider the lengths to which British Airways is going to satisfy valued customers.79 CReATing Long-TeRm LoyALTy ReLATionshiPs | chapter 5 147 BritisH airways British Airways took personalization to a higher level in the summer of 2012 with its new "Know Me" program. One goal was to centralize information about frequent fliers from every one of BA's service chan- nels—Web site, call center, e-mail, on board planes, and inside airports—into a single database. For any one passenger booked on a flight, BA would know his or her current seating location, previous flights and meal choices, prior complaint history, and so on. BA also distributed 2,000 iPads among crew members and ground staff to allow them to access the database as well as receive personal recognition messages about passengers on any one flight. The goal was to have 4,500 daily messages, or approximately seven message updates per flight. To facilitate VIP passenger identification, British Airways also used stored photos of fliers downloaded from Google Image searches. One company representative described the program as aiming to "recreate the feeling of recognition you get in a favorite restaurant when you're welcomed there, but in our case it will be delivered by thousands of staff to millions of customers." Although some observers raised privacy concerns—even calling it "creepy"—British Airways noted that the passenger information was already available or viewed as helpful by its most valuable fliers. The Behavioral Targeting Controversy The emergence of behavioral targeting is allowing companies to track the online behavior of target customers and find the best match between ads and prospects. Tracking an individual's Internet usage behavior relies on cookies—randomly assigned numbers, codes, and data that are stored on the user's computer hard drive and reveal which sites have been visited, the amount of time spent there, which products or pages were viewed, and which search terms were entered. The Wall Street Journal reviewed 1,000 top Web sites and found that 75 percent included code from social networks such as Facebook's "like" and Twitter's "tweet" buttons. The existence of the code could match people's identities with their Web-browsing activities, tracking a user's arrival on a page even if the Facebook or Twitter button was never clicked. Another Wall Street Journal study showed that roughly a quarter of the times a user logged into one of 70 popular Web sites, the user's real name and e-mail address or other personal details, such as username, were passed on to third-party companies. A new customer signing up with Microsoft for a free Hotmail e- mail account, for example, is required to give the company his or her name, age, gender, and zip code. Microsoft can then combine those facts with information such as observed online behavior and character- istics of the area in which the customer lives to help advertisers better understand whether, when, and how to contact that customer. Although Microsoft maintains it carefully preserves consumer privacy—it claims it won't purchase an individual's income history—it can still provide advertising clients with behavioral targeting information. For example, Microsoft can help a DiningIn franchisee zero in on working moms ages 30 to 40 in a given neighborhood with ads designed to reach them before 10 am when they're most likely to be planning their evening meal. Or if a person clicks on three Web sites related to auto insurance and then visits an unrelated site for sports or entertainment, auto insurance ads may show up on that site. Microsoft claims behavioral targeting can increase the likelihood a visitor clicks an ad by as much as 76 percent. Proponents of behavioral targeting maintain that it also brings consumers more relevant ads. Because the ads are more effective as a result, more ad revenue is available to support free online con- tent. Supporters also maintain that many consumers would be less concerned if they knew exactly how tracking worked. They argue that practices conform with the online ad industry's self-regulation norms, ensuring anonymity by not giving firms access to "personal identifiable information" (PII). Identity information is removed, protected, or separated from browsing history in different ways. For example, a Web site can use a formula to turn its users' e-mail addresses into jumbled strings of num- bers and letters, as can an advertiser. Both can send their jumbled lists to a third company that looks for matches so the Web site can show an ad targeted to a specific person without any real e-mail addresses changing hands. Nevertheless, as Chapter 3 pointed out, consumers have sig- nificant misgivings about advertisers tracking them online. A single Web page can contain computer code from dozens of different ad compa- nies or tracking firms. Government regulators wonder whether industry self-regulation will be sufficient or whether legislation is needed. Sources: Elisabeth Sullivan, "Behave," Marketing News, September 15, 2008, pp. 12–15; Stephanie Clifford, "Two-Thirds of Americans Object to Online Tracking," New York Times, September 30, 2009; Jessica Mintz, "Microsoft Adds Behavioral Targeting," Associated Press, December 28, 2006; Laurie Birkett, "The Cookie That Won't Crumble," Forbes, January 18, 2010, p. 32; Alden M. Hayashi, "How Not to Market on the Web," MIT Sloan Management Review (Winter 2010), pp. 14–15; Deborah L. Golemon and Laurie A. Babin, "How Marketers Are Dealing With the Controversy Surrounding Behavioral Targeting," International Journal of Business, Marketing and Decision Sciences 4 (Spring 2011), pp. 127-141; Jennifer Valentino- Devries and Jeremy Singer-Vine, "They Know What You're Shopping For," Wall Street Journal, December 7, 2012. marketing insight 148 PART 3 | ConneCTing WiTh CusTomeRs While British Airways is personalizing its service experiences, BMW is figuring out ways to personalize its products. While 15 percent of U.S. drivers custom-ordered their cars in 2010, BMW's goal was to make that number 40 percent of its buyers by 2015. The company offers 500 side-mirror combinations, 1,300 front bumper combinations, and 9,000 center-console combinations and provides new buyers a video link to watch their car being "born" while waiting for delivery. Its detailed manufacturing and procurement system takes the slack out the production process, reduces inventory carrying costs, and avoids rebates on slow-moving sellers. Customers tend to load up with options—generating more profitability for BMW and its dealers—but are also more loyal.80 Even Coca-Cola is getting in on the action. The Coca-Cola Freestyle dispensing machine can dispense 125 sparkling and still brands that consumers can mix via a touchscreen, creating a beverage to suit their particular taste.81 To adapt to customers' increased desire for personalization, marketers have embraced concepts such as permission marketing. Permission marketing, the practice of marketing to consumers only after gaining their expressed permis- sion, is based on the premise that marketers can no longer use "interruption marketing" via mass media campaigns. According to Seth Godin, a pioneer in the new technique, marketers develop stronger consumer relationships by respecting consumers' wishes and sending messages only when they express a willingness to become more engaged with the brand.82 Godin believes permission marketing works because it is "anticipated, personal, and relevant." Permission marketing, like other personalization approaches, presumes consumers know what they want, though they often have undefined, ambiguous, or conflicting preferences. "Participatory marketing" may be a more appropriate concept than permission marketing because marketers and consumers need to work together to find out how the firm can best satisfy consumers. Customer empowerment Marketers are helping consumers become evangelists for brands by providing them resources and opportunities to demonstrate their passion. Doritos held a contest to let consumers name its next flavor. Converse asked amateur filmmakers to submit 30-second short films that demonstrated how the iconic sneaker brand inspired them. The best of the 1,800 submissions were showcased in the Converse Gallery As part of a broad trend towards personalization, Coca-Cola has introduced Freestyle dispensing machines that allow users to customize their soft drink choices. So ur ce : S co tt K ee le r/ Z U M A PR E SS /N ew sc om CReATing Long-TeRm LoyALTy ReLATionshiPs | chapter 5 149 Web site, and the best of the best became TV commercials. Sales of shoes via the Web site doubled in the month after the gallery's launch.83 As much as new technologies help customers assist or become involved in a brand's marketing, they also help them avoid marketing at the same time. For example, ad blocking is the most popular software extension for lead- ing browsers, and the overall rate of ad blocking by users averages about 10 percent.84 Although much has been made of the newly empowered consumer—in charge, setting the direction of the brand, and playing a much bigger role in how it is marketed—it's still true that only some consumers want to get involved with some of the brands they use and, even then, only some of the time. Consumers have lives, jobs, families, hobbies, goals, and commitments, and many things matter more to them than the brands they purchase and consume. Understanding how to best market a brand given such diversity in customer interests is crucially important.85 When will consumers choose to engage with a brand? Many factors can come into play, but follow-up analy- sis of the IBM 2010 CEO Study revealed the following about customer pragmatism: ". . . most do not engage with companies via social media simply to feel connected. . . . To successfully exploit the potential of social media, com- panies need to design experiences that deliver tangible value in return for customers' time, attention, endorsement and data." According to these IBM analysts, that "tangible value" includes discounts, coupons, and information to facilitate purchase. They also note that many businesses overlook social media's most potent capabilities for captur- ing customer insights, monitoring the brand, conducting research, and soliciting new-product ideas.86 Customer reViews anD reCommenDations Although the strongest influence on consumer choice remains "recommended by relative/friend," an increasingly important decision factor is "recommendations from consumers." With increasing mistrust of some companies and their advertising, online customer ratings and reviews are playing a growing role in the customer buying process.87 A Forrester research study, for example, found that close to 50 percent of consumers won't book a hotel that does not have online reviews. Not surprisingly, more hotels are launching their own program to post reviews (Starwood places independent, authenticated reviews on individual hotel sites) or are using travel review sites (Wyndham streams its five most recent reviews from TripAdvisor on its site, leading to a 30 percent increase in bookings).88 TripAdvisor has quickly grown to be a valuable online resource for travelers.89 triPaDVisOr After being frustrated by the lack of detailed, reliable, and up-to-date information available to help him decide where to go on a Mexican holiday, Stephen Kaufer founded TripAdvisor in 2001. The pioneer in online consumer travel reviews, the company grew quickly and is now the world's largest travel Web site, with more than 170 mil- lion user reviews and opinions as of 2014. It allows users to collect and share information and make bookings for a wide variety of hotels, vacation rentals, airlines, restaurants, and other travel-related locations or businesses through its hotel and air booking partners. Users can post reviews, photos, and opinions and participate in discussions on a variety of different topics. To improve the quality and accuracy of its content, TripAdvisor uses both manual review and advanced computer algorithms, including a verification and fraud detection system that considers the IP and e-mail addresses of reviewers (as well as other review attributes) and monitors suspicious patterns of postings as well as inappropriate language. About 30 hotels have been blacklisted from the site for suspicious reviews. TripAdvisor has more than 280 million unique visitors monthly, and hundreds of millions of people each month view its content on 500 other sites, including Best Western International, Expedia, and Thomas Cook. In recent years, TripAdvisor has innovated to improve the personalization and social nature of its services; in fact, it was one of Facebook's initial launch partners for its "Instant Personalization" project, which allows users to personalize their TripAdvisor experience by allowing them to see TripAdvisor content posted by their Facebook friends, subject to their privacy elections. Local Picks is a Facebook app that allows users to localize TripAdvisor restaurant reviews and auto-share user reviews on Facebook Timeline. The Friends of Friends function allows TripAdvisor users to sort reviews by a user's Facebook friend status. Its acquisitions of social and mobile connectivity travel sites Wanderfly and EveryTrail have further strengthened TripAdvisor's capabilities in that area. When online pet food retailer PETCO started using consumer product ratings and reviews in e-mails and banner ads, it found its click-through rate increased considerably as a result.90 Brick-and-mortar retailers such as Best Buy, Staples, and Cabela's are also recognizing the power of consumer reviews and have begun to display them in their stores.91 150 PART 3 | ConneCTing WiTh CusTomeRs Despite consumer acceptance of such reviews, however, their quality and integrity can be in question.92 In one famous example, over a period of seven years, the cofounder and CEO of Whole Foods Market posted more than 1,100 entries on Yahoo! Finance's online bulletin board under a pseudonym, praising his company and criticizing competitors. Some companies offer computer-recognition technology to monitor for fraud. Bazaarvoice helps companies such as Walmart and Best Buy manage and monitor online reviews using a process called device fingerprinting. The company caught one firm posting hundreds of positive reviews of one of its products and negative reviews of its competitor's.93 Online reviews and blogging sites such as Gawker have struggled to police comments.94 To avoid attracting anonymous or biased reviews, Angie's List allows only paid and registered subscribers to access its Web site, which compiles about 40,000 reviews of service companies and health care professionals from its 1.5 million North American subscribers each month. Users rate providers on price, quality, responsiveness, punctuality, and profes- sionalism using a report card-style A-to-F scale.95 Other sites offer summaries of professional third-party reviews. Metacritic aggregates music, game, TV, and movie reviews from leading critics—often from more than 100—averaged into a single 1-to-100 score. Review sites are important in the video game industry because of the influence they wield and the prod- uct's high selling price—often $50 to $60. Some game companies tie bonuses for their developers to game scores on the more popular sites. If a major new release doesn't make the 85-plus cutoff, the publisher's stock price may even drop.96 Bloggers who review products or services are influential because they may have thousands of followers; blogs are often among the top links returned in online searches for certain brands or categories. A company's PR department may track popular blogs via online services such as Google Alerts and Technorati. Firms also court the favor of key bloggers via free samples and advance information. Most bloggers disclose this special treatment. For smaller brands with limited media budgets, online word of mouth is critical. To generate prelaunch buzz for one of its new hot cereals, organic food maker Amy's Kitchen shipped out samples before its release to several of the 50 or so vegan, gluten-free, or vegetarian food bloggers the company tracks. Because the company was besieged by e-mails asking where to buy the cereal.97 As it turns out, sometimes even negative reviews can be surprisingly helpful. For one thing, although they can hurt a well-known brand, they can create awareness about an unknown or overlooked one. They can also provide valued information. A Forrester study of 10,000 consumers of Amazon.com's electronics and home and garden products found that 50 percent found negative reviews helpful. Most purchased the products regardless of negative comments because they felt these merely reflected personal tastes and opinions different from their own. When consumers can better learn the advantages and disadvantages of products through negative reviews, fewer product returns may result, saving retailers and product makers money.98 Online retailers often add their own recommendations to consumer selections or purchases: "If you like that black handbag, you'll love this red top." One source estimated that recommendation systems contribute 10 percent to 30 percent of an online retailer's sales. Specialized software tools help facilitate customer "discovery" or un- planned purchases. At the same time, online companies need to make sure their attempts to create relationships with customers don't backfire, as when customers are bombarded by computer-generated recommendations that consistently miss the mark. Buy a few baby gifts on Amazon.com, and your personalized recommendations suddenly don't look so personal! E-tailers need to recognize the limitations of online personalization while searching for technology and processes that really work. Customer Complaints Some companies think they're getting a sense of customer satisfaction by tallying complaints, but studies show that while customers are dissatisfied with their purchases about 25 percent of the time, only about 5 percent complain. The other 95 percent either feel complaining is not worth the effort or don't know how or to whom to complain. They just stop buying.99 Of the customers who register a complaint, 54 percent to 70 percent will do business with the organization again if their complaint is resolved. The figure goes up to a staggering 95 percent if the customer feels the com- plaint was resolved quickly. Customers whose complaints are satisfactorily resolved tell an average of five people about the good treatment they received.100 The average dissatisfied customer, however, gripes to 11 people. If each of these tells still other people, the number exposed to bad word of mouth may grow exponentially. CReATing Long-TeRm LoyALTy ReLATionshiPs | chapter 5 151 No matter how perfectly designed and implemented a marketing program is, mistakes will happen. The best thing a company can do is make it easy for customers to complain. Suggestion forms, toll-free numbers, Web sites, and e-mail addresses allow for quick, two-way communication. The 3M Company claims that more than two- thirds of its product-improvement ideas come from listening to customer complaints. Given that many customers may choose not to complain, companies should proactively monitor online sites and other places where customer complaints and feedback may be aired. Jet Blue's 27-member customer service team is charged with monitoring the airline's Twitter account and Facebook page, among other responsibilities. When a customer's complaint about a fee for bringing a folded bike on board began to circulate online, Jet Blue quickly responded and decided it was not a service it should charge for.101 Given the potential downside of having an unhappy customer, it's critical that marketers deal with negative experiences properly.102 Although challenging, the following practices can help to recover customer goodwill:103 1. Set up a seven-day, 24-hour toll-free hotline (by phone, fax, or e-mail) to receive and act on complaints— make it easy for the customer. 2. Contact the complaining customer as quickly as possible. The slower the company is to respond, the more dis- satisfaction may grow and lead to negative word of mouth. 3. Accept responsibility for the customer's disappointment; don't blame the customer. 4. Use customer service people who are friendly and empathic. 5. Resolve the complaint swiftly and to the customer's satisfaction. Some complaining customers are not looking for compensation so much as a sign that the company cares. Not all complaints, however, reflect actual deficiencies or problems with a company's product or service.104 Big companies especially are targets for opportunistic customers who attempt to capitalize on even minor transgres- sions or generous compensation policies. Some firms fight back and even take an aggressive stance if they feel a criticism or complaint is unjustified. When Taco Bell began to attract negative buzz online after rumors and a consumer lawsuit alleged that its taco mixture consisted of more filler than meat, it leaped into action with full-page newspaper ads headlined, "Thank you for suing us." There and in Facebook postings and a YouTube video, the company pointed out that its taco mixture was 88 percent beef, with ingredients such as water, oats, spices, and cocoa powder added only for flavor, texture, and moisture. To help spread the word, Taco Bell marketers bought the key words "taco," "bell," and "lawsuit" so that its official responses appeared as the first link on Yahoo!, Google, and Bing searches.105 Many senior executives worry about their firms using social media and the potential negative effects of cranky customers communicating online. Marketers, however, contend that the positives outweigh the negatives and steps can be taken to minimize the likelihood of such damage. One strategy for companies active in corporate social responsibility is to actively shape their public image dur- ing quiet times and then leverage that goodwill in paid or other media during difficult times. Nike was once a target of Internet-savvy critics who skillfully used search engine optimization to populate unflattering portraits of the company. Now, searches for Nike yield links to sites that describe its many environmental and community initiatives (such as shoe recycling).106 Taco Bell aggressively defends the quality of its products via social media. So ur ce : A SS

O C I A T E D P R E S S 152 PART 3 | ConneCTing WiTh CusTomeRs 4. Quality is the totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs. Marketers play a key role in achieving high levels of total quality so that firms remain solvent and profitable. 5. Marketing managers must calculate customer lifetime values of their customer base to understand their profit implications. They must also determine ways to increase the value of the customer base. 6. Companies are also becoming skilled in customer rela- tionship management (CRM), which focuses on devel- oping programs to attract and retain the right custom- ers and meeting the individual needs of those valued customers. Summary 1. Customers are value maximizers. They form an expec- tation of value and act on it. Buyers will buy from the firm that they perceive to offer the highest customer-delivered value, defined as the difference between total customer benefits and total customer cost. 2. A buyer's satisfaction is a function of the product's per- ceived performance and the buyer's expectations. Rec- ognizing that high satisfaction leads to high customer loyalty, companies must ensure that they meet and ex- ceed customer expectations. 3. Losing profitable customers can dramatically affect a firm's profits. The cost of attracting a new customer is estimated to be five times the cost of keeping a current customer happy. The key to retaining customers is rela- tionship marketing. MyMarketingLab Go to mymktlab.com to complete the problems marked with this icon as well as for additional auto-graded and assisted-graded writing questions. Marketing Discussion Using CLV Consider customer lifetime value (CLV). Choose a busi- ness and show how you would go about developing a quan- titative formulation that captures the concept. How would that business change if it fully embraced the customer eq- uity concept and maximized CLV? Applications Marketing Debate Online versus Offline Privacy As more firms practice relationship marketing and develop customer databases, privacy issues are emerging as an important topic. Consumers and public interest groups are scrutinizing—and sometimes criticizing—the privacy poli- cies of firms and raising concerns about potential theft of online credit card information or other potentially sensitive or confidential financial information. Others maintain online privacy fears are unfounded and that security issues are as much a concern offline. They argue that the opportunity to steal information exists virtually everywhere and that it's up to consumers to protect their interests. Take a position: Privacy is a bigger issue online than offline versus Privacy is no different online than offline. CReATing Long-TeRm LoyALTy ReLATionshiPs | chapter 5 153 Nordstrom had never carried or sold tires, it happily accepted the return and instantly provided the customer cash for his purchase. In another example, a salesewoman noticed that a customer had left her plane ticket on the store's counter. She called the airport and asked the air- line to issue the customer another ticket, but the airline refused. The saleswomen immediately jumped into a cab and hand-delivered the ticket to the customer at the airport. There are many other examples of its exceptional customer service, and Nordstrom's "no questions asked" return policy remains intact today. Its sales representa- tives send thank-you cards to customers who shop there, warm up their customers' cars on cold days, and have hand-delivered special orders to customers' homes. Nordstrom installed a tool called Personal Book at its registers that allows salespeople to enter and recall cus- tomers' specific preferences in order to better personalize their shopping experiences. Sales associates are also al- lowed to sell merchandise in any department, giving them even more opportunities to develop relationships with customers. Nordstrom also provides multiple channels for shopping, allowing customers to buy something online and pick it up at a store within an hour. Nordstrom believes it has 15 seconds to capture the excitement of a customer with "a memorable experi- ence" when he or she walks in the door. Aisles are neat and uncluttered, big display windows create a bright and open atmosphere, and the layout is efficient and easily navigated. Dressing rooms are large and illuminated to imitate natural light, escalators are wide to allow couples or parents with children to stand next to each other, and each fixture is chosen to create a homelike feeling. When a new store opens, Nordstrom connects with the surrounding community by hosting an opening night gala complete with live entertainment, a runway fashion show, and the ultimate shopping experience to help raise money for local charities. Nordstrom's Fashion Rewards Program repays loyal customers on four levels based on their annual spend- ing. Customers who spend $10,000 annually also receive complimentary alterations, a 24-hour fashion emergency hotline, and access to a personal concierge service. Customers at the highest level ($20,000 annually) also receive private shopping trips complete with dressing rooms pre-stocked in their size, champagne, live piano music, tickets to Nordstrom's runway fashion shows, and access to exclusive travel and fashion packages, includ- ing red carpet events. The company's long-term and often costly customer- focus approach has reaped great benefits. Not only has Nordstrom emerged as a luxury brand known for quality, trust, and service, but its customers remain loyal even in hard times. During the economic crisis in 2008 and 2009, Marketing Excellence >> Nordstrom In 1901, John W. Nordstrom founded a small shoe store in Seattle that eventually grew into a fashion specialty chain store called Nordstrom. Nordstrom has remained in the family for four generations and now sells top-quality brand-name clothing, accessories, jewelry, cosmetics, and fragrances. John W. Nordstrom built his company on the belief that it should always provide the highest possible level of customer service, along with top-of-the-line, high-quality merchandise to fit almost everyone's needs and bud- get. When he retired, his sons Everett, Elmer, and Lloyd continued to run the business with the same customer- focused attitude their father shared. As the company ex- panded into fashion, stores were stocked with a wide range of high-quality clothes at various price points. Nordstrom believed it was better to carry too many sizes in each style than not enough so a customer didn't get frustrated if his or her size wasn't available. The brothers also instituted a policy titled "decision by consensus," which helped move the company along even when dis- agreements arose. Nordstrom grew into the billion-dollar retailer it is to- day under the leadership of the family's third generation: Bruce, John, and Jim Nordstrom and Jack McMillan. Their philosophy focused on empowering the manag- ers and sales force to make decisions that favored the customer, not the company. The company rewarded en- ergetic individuals who attained an entrepreneurial spirit, preferring to hire "nice" people who could be trained to sell rather than seasoned "salespeople" who weren't seen as nice. During this time the company also decentralized its purchasing process, giving regional managers the freedom to purchase styles that fit the needs and tastes of their particular area. That is, managers in Minnesota could, and did, buy very different from managers in southern California. To cater to each region, the company encouraged its sales force to continuously ask custom- ers what products and styles they would like to see in the store. Jim Nordstrom explained, "When we go into a market, our first buy is the worst." Today, Nordstrom is run by the fourth Nordstrom generation and continues to set the standard in customer service and loyalty. In fact, the company is so well known for its customer service that true tales of "heroics" still cir- culate today. Perhaps the best-known tells how in 1975 a customer came into the store after Nordstrom had purchased an Alaska-based company called Northern Commercial. The customer wanted to return a set of tires originally bought at Northern Commercial. Although 154 PART 3 | ConneCTing WiTh CusTomeRs Questions 1. How else can Nordstrom continue to provide excep- tional customer service and increase brand loyalty? 2. What are Nordstrom's greatest risks, and who are its biggest competitors? Sources: "Annual Reports," Nordstrom.com; "Company History," Nordstrom.com; Chantal Todé, "Nordstrom Loyalty Program Experience," DMNews, May 4, 2007; Melissa Allison and Amy Martinez, "Nordstrom's Solid December Showing Suggests Some Shoppers Eager to Spend," Seattle Times, January 7, 2010; Robert Spector and Patrick D. McCarthy, The Nordstrom Way: The Inside Story of America's #1 Customer Service Company (New York: John Wiley & Sons, Inc., 1995). many customers chose Nordstrom over its competitors due to their existing relationship and its hassle-free return policy. Nordstrom continues to stay strategically focused on customer service and look for new ways to help deepen and develop its customer-salesperson relationship. The company currently operates in 44 countries and 31 states with 117 full-line stores, 119 Nordstrom Rack clearance stores, two Jeffrey Boutiques, and one clearance store. Sales reached $12.2 billion in 2013. customers' shopping patterns and preferences better than any competitor. Using Clubcard data, Tesco created a unique "DNA profile" for each customer based on shopping habits. It classified each product a customer purchased on as many as 40 dimensions, including price, size, brand, eco-friendliness, convenience, and healthiness. Based on these profiles, Tesco shoppers received one of 4 million variations of the quarterly Clubcard statement, containing targeted special offers and other promotions. The com- pany also installed kiosks in its stores where Clubcard shoppers could get customized coupons. The Clubcard data helped Tesco run its business more efficiently too. Tracking Clubcard purchases uncov- ered each product's price elasticity and helped set pro- motional schedules, which saved Tesco more than $500 million. Tesco used its customer data to pick the range of products and type of merchandising for each store and even to choose the location of new stores. Within 15 months of introduction, more than 8 million Clubcards had been issued, of which 5 million were used regularly. Next, Tesco expanded its powerful private-label pro- gram with three distinctive brands in various price ranges; "Finest" offered the best-quality item at the highest price, "Mid-range" targeted the middle range, and the "Value" product line offered the best bargain prices available. Through this simple system, consumers came to expect a certain quality at variable prices. By 1999, the company's market share in the United Kingdom rose to 15 percent, and it was voted Britain's most admired company. In the following years, Tesco continued to apply its winning formula of using private labels and customer data to dominate the British retail landscape. It also moved further into "big-box" retailing of gen- eral merchandise, or nonfood products. This strategic growth plan not only provided additional convenience to consumers who preferred shopping under one roof but also improved overall profitability. In 2003, the average profit margin for nonfood products was 9 percent versus Marketing Excellence >> Tesco Tesco hasn't always had a reputation as a customer-friendly retailer. Back in the early 1980s, it was a UK grocery store chain that suffered from a reputation for "piling it high and selling it cheap" and trailed behind Sainsbury's, a more upscale UK retailer. Only when the company came under the leadership of Ian MacLaurin did it begin to reinvent itself as a customer-friendly brand. In 1983, Tesco began the long process of updat- ing its stores and improving its product selection. Over the next decade, it took on Sainsbury's head on with brighter stores, higher-quality products, affordable prices, and more locations. Between 1990 and 1992, Tesco launched 114 separate initiatives to improve the quality of its stores, including adding baby-changing rooms, stock- ing specialty items such as French free-range chickens, and introducing a value-priced line of products. The company also developed a well-received mar- keting campaign titled "Every Little Helps" that helped communicate these improvements and enhance its brand image in the public eye. The campaign included 20 ads, each focused on a different aspect of its new approach: "Doing right by the customer." As a result, by 1995, Tesco had attracted 1.3 million new customers and its market share surpassed Sainsbury's for the first time, making it the new market leader. In 1997, Terry Leahy took over as CEO. During his tenure, Tesco grew from the third-largest UK supermarket chain, with $7 billion in sales, to the third-largest retailer in the world, with more than $100 billion in sales. Under Leahy's guidance, Tesco introduced its Clubcard frequent-shopper program, an initiative that helped make the company a world-class example of how to build lasting relationships with customers. The Clubcard not only offered discounts and special offers tailored to individual shoppers but also acted as a pow- erful data-gathering tool, enabling Tesco to understand CReATing Long-TeRm LoyALTy ReLATionshiPs | chapter 5 155 5 percent for food products, and nearly 20 percent of Tesco's revenues came from nonfood items. That year, the company sold more CDs than Virgin Megastores, and its apparel line, Cherokee, was the fastest-growing brand in the United Kingdom. By 2005, the company had a 35 percent share of supermarket spending in the United Kingdom, almost twice that of its nearest competitor, and a 14 percent share of total retail sales. Tesco's stores are now categorized into seven differ- ent formats, depending on where they are located and whom they target: Tesco Extra, Tesco Superstores, Tesco Metro, Tesco Express, One Stop, Tesco Homeplus, and Dobbies. Tesco Extra is the largest and offers a wide range of food and nonfood products and services like optical centers. Tesco Superstores are standard large supermarkets that offer some nonfood products. Tesco Express stores are neighborhood convenience stores that stock mostly higher-margin products and everyday essentials. Tesco continues to diversify its product and service offerings to reach more consumers. The company part- nered with existing telecoms to create Tesco Mobile and Tesco Home Phone and launched Tesco Broadband to provide Internet access to homes and businesses. In addition, it now offers insurance policies, dental plans, music downloads, and financial services. In 2008, Tesco joined forces with the Royal Bank of Scotland to create a banking division, Tesco Bank. Its aggressive expansion into nonfood items was a departure from Tesco's core focus on groceries. That, and its determination to expand in Asia, India, and the United States, led to troubled times during the recession and a 20 percent slide in its stock price in 2010. Quality within the supermarkets slipped significantly, and custom- ers were turned off by the abundance of nonfood items in their stores during a poor economy. Tim Green, retail ana- lyst at Brewin Dolphin Ltd., explained, "Tesco got a little bit distracted by thinking of China, the U.S., wider Asia, Central Europe, Tesco Bank, Tesco Telephony. But that is not acceptable, because U.K. food is the main profit generator." In 2011, Tesco came under the leadership of a new CEO, Philip Clarke, who set out to turn the company around immediately and revive its focus on supermarkets and customer service. First, he cut back on expansion programs, pulling out of Japan completely and slowing growth in the United States, India, and the rest of Europe. Next, he announced a major overhaul of the supermarket chains. Tesco hired and trained tens of thousands of em- ployees who were dedicated to serving customers in the produce and meat departments, which had recently been deprived of sufficient staff. The company relaunched its Tesco Value brand as Everyday Value and invested significantly to improve the quality and appearance of hundreds of Tesco products without raising the price. It renovated many of its brick- and-mortar stores to give them a homier feeling through better lighting, cleaner shelves, new fixtures and signs, warmer colors, and more spacious produce areas. Tony Hoggett, managing director of Tesco Superstores, ex- plained how small things added up to make a big differ- ence. "It still isn't rocket science. We've improved the look and feel of our stores to make them a much warmer, friendlier place for customers to shop in." In 2012, Tesco's revenues topped $108 billion and before-tax profits reached $5.7 billion. Today, Tesco is the largest British retailer measured by both sales and market share (31 percent) and the third-largest grocery retailer in the world after Walmart and Carrefour. Questions 1. What's most important to the Tesco brand? 2. How will Tesco grow without losing focus on its core customer? 3. How can Tesco take its customer loyalty programs to the next level? Sources: Tesco Annual Report 2012; Richard Fletcher, "Leahy Shrugs Off Talk of a 'Brain Drain,'" Sunday Times (London), January 29, 2006; Elizabeth Rigby, "Prosperous Tesco Takes Retailing to a New Level," Financial Times, September 21, 2005, p. 23; Hamish Pringle and Marjorie Thompson, Brand Spirit (New York: John Wiley & Sons, 1999); Paul Sonne, "Tesco Loses Its Appetite for Growth," Wall Street Journal, November 18, 2012, p. B.3; Renee Schultes, "U.K. Grocers Locked in Coupon Warfare," Wall Street Journal, August 29, 2012; Harry Wallop, "Tesco Ditches Jon Value Range," BST, April 4, 2012; Peter Evans, "Britain's Tesco Tries Out New Retail Recipe," Wall Street Journal, July 9, 2012, B.3; Julia Werdigier, "Tesco to Invest Heavily in a Domestic Revival," New York Times, April 19, 2012; Terry Leahy, "Lessons from a Retail Veteran," Wall Street Journal, June 27, 2012. 156 In This Chapter, We Will Address the Following Questions 1. How do consumer characteristics influence buying behavior? (p. 157) 2. What major psychological processes influence consumer responses to the marketing program? (p. 165) 3. How do consumers make purchasing decisions? (p. 172) 4. In what ways do consumers stray from a deliberative, rational decision process? (p. 180) Based on detailed consumer insights, Domino's improved its products and how they were marketed. Source: Domino's Pizza, LLC MyMarketingLab™ Improve Your Grade! Over 10 million students improved their results using the Pearson MyLabs. Visit mymktlab.com for simulations, tutorials, and end-of-chapter problems. 157 Adopting a holistic marketing orientation requires fully understanding customers—gaining a 360-degree view of both their daily lives and the changes that occur during their lifetimes so the right products are always marketed to the right customers in the right way. This chapter explores individual consumers' buying dynamics; the next chapter explores the buying dy- namics of business buyers. Marketers must have a thorough understanding of how consumers think, feel, and act and offer clear value to each and every target consumer. In an award-winning marketing campaign, Domino's showed how it dealt with negative consumer attitudes about its pizza.1 Analyzing Consumer Markets 6 Known more for the speed of its delivery than for the taste of its pizza, Domino's decided to ad- dress negative perceptions head on. A major communication program themed "Oh Yes We Did" featured documentary-style TV ads that opened with Domino's employees at corporate headquarters reviewing written and videotaped focus group feedback from customers. The feedback contains bit- ing comments, such as "Domino's pizza crust to me is like cardboard" and "The sauce tastes like ketchup." Company president Patrick Doyle is shown stating that these results are unacceptable, and the ads then show Domino's chefs and executives in their test kitchens proclaiming that their pizza is new and improved with a bolder, richer sauce; a more robust cheese combination; and an herb-and-garlic-flavored crust. Many critics were stunned by the company's admission that its number-two-ranked pizza had, in effect, been inferior for years. Oth- ers countered by noting that the new product formulation and unconventional ads were addressing a widely held, difficult-to-change negative belief that was dragging the brand down and required decisive action. Doyle summed up consumer reaction: "Most really like it, some don't. And that's OK." Subsequent events proved Doyle right. Backed by additional ads and social media campaigns—and the reformulated pizza—Domino's found itself improving its image and gaining share in the following years. From the end of 2009, when Domino's announced its plans, until the end of 2011, the stock gained 233 percent, compared with 37 percent for its key rival, Papa John's. In recent years, sales have been further spurred by marketing innovations such as a mobile-optimized Web site for online ordering, new audible formats for the chain's popular Pizza Tracker, smart-phone and table apps for ordering, and the Pizza Hero game for the iPad. Known more for the speed of its delivery than for the taste of its pizza, Domino's decided to ad reviewing written and videotaped focus group feedback from customers. The feedback contains bit ing comments, such as "Domino's pizza crust to me is like cardboard" and "The sauce tastes like What Influences Consumer Behavior? Consumer behavior is the study of how individuals, groups, and organizations select, buy, use, and dispose of goods, services, ideas, or experiences to satisfy their needs and wants.2 Marketers must fully understand both the theory and the reality of consumer behavior. Table 6.1 provides a snapshot profile of U.S. consumers. A consumer's buying behavior is influenced by cultural, social, and personal factors. Of these, cultural factors exert the broadest and deepest influence. Cultural FaCtors Culture, subculture, and social class are particularly important influences on consumer buying behavior. Culture is the fundamental determinant of a person's wants and behavior. Through family and other key institutions, a child growing up in the United States is exposed to values such as achievement and success, activity, efficiency 158 PART 3 | ConneCTing WiTh CusTomeRs Table 6.1 U.S. Consumer Almanac Expenditures Average U.S. outlays for goods and services in 2013 $ Housing $17,148 Transportation $9,004 Food $6,602 Personal insurance and pensions $5,528 Health care $3,631 Entertainment $2,482 Apparel and services $1,604 Cash contributions $1,834 All other $3,267 Total average annual expenditures $51,100 Time use on an average workday for employed persons ages 25–54 with children in 2013 Working and related activities 8.7 hours Sleeping 7.7 hours Leisure and sports 2.5 hours Caring for others 1.3 hours Eating and drinking 1.0 hours Household activities 1.1 hours Other 1.7 hours Average time spent per person per day—Q4 2013 Hours Watching TV in the home 5.04 Watching time-shifted TV 0.32 Video games 0.12 DVD playback 0.09 Sources: Bureau of Labor Statistics, Consumer Expenditure Survey, www.bls.gov, September 9, 2014; Bureau of Labor Statistics, American Time Use Survey, www.bls.gov, June 18, 2014; AC Nielsen, "An Era of Growth: The Cross-Platform Report: Q4 2013," www.nielsen.com, March 5, 2014. AnAlyzing ConsumeR mARkeTs | chapter 6 159 and practicality, progress, material comfort, individualism, freedom, external comfort, humanitarianism, and youthfulness.3 A child growing up in another country might have a different view of self, relationship to others, and rituals. Marketers must closely attend to cultural values in every country to understand how to best market their exist- ing products and find opportunities for new products. Each culture consists of smaller subcultures that provide more specific identification and socialization for their members. Subcultures include nationalities, religions, racial groups, and geographic regions. When subcultures grow large and affluent enough, companies often design spe- cialized marketing programs to serve them. Virtually all human societies exhibit social stratification, most often in the form of social classes, relatively ho- mogeneous and enduring divisions in a society, hierarchically ordered and with members who share similar values, interests, and behavior. One classic depiction of social classes in the United States defined seven ascending levels: (1) lower lowers, (2) upper lowers, (3) working class, (4) middle class, (5) upper middles, (6) lower uppers, and (7) upper uppers.4 Social class members show distinct product and brand preferences in many areas. soCIal FaCtors In addition to cultural factors, social factors such as reference groups, family, and social roles and statuses affect our buying behavior. RefeRence GRoups A person's reference groups are all the groups that have a direct (face-to-face) or indirect influence on their attitudes or behavior. Groups having a direct influence are called membership groups. Some of these are primary groups with whom the person interacts fairly continuously and informally, such as family, friends, neighbors, and coworkers. People also belong to secondary groups, such as religious, professional, and trade-union groups, which tend to be more formal and require less continuous interaction. Reference groups influence members in at least three ways. They expose an individual to new behaviors and lifestyles, they influence attitudes and self-concept, and they create pressures for conformity that may affect prod- uct and brand choices. People are also influenced by groups to which they do not belong. Aspirational groups are those a person hopes to join; dissociative groups are those whose values or behavior an individual rejects. Where reference group influence is strong, marketers must determine how to reach and influence the group's opinion leaders. An opinion leader is the person who offers informal advice or information about a specific prod- uct or product category, such as which of several brands is best or how a particular product may be used.5 Opinion leaders are often highly confident, socially active, and frequent users of the category. Marketers try to reach them by identifying their demographic and psychographic characteristics, identifying the media they read, and directing messages to them.6 cliques Communication researchers propose a social-structure view of interpersonal communication.7 They see society as consisting of cliques, small groups whose members interact frequently. Clique members are similar, and their closeness facilitates effective communication but also insulates the clique from new ideas. The challenge is to create more openness so cliques exchange information with others in society. This openness is helped along by people who function as liaisons and connect two or more cliques without belonging to either and by bridges, people who belong to one clique and are linked to a person in another. Cultural values differ by countries and markets. So ur ce : © B le nd I m ag es /A la m y 160 PART 3 | ConneCTing WiTh CusTomeRs Best-selling author Malcolm Gladwell claims three factors work to ignite public interest in an idea.8 According to the first, "The Law of the Few," three types of people help to spread an idea like an epidemic. First are Mavens, people knowledgeable about big and small things. Second are Connectors, people who know and communicate with a great number of other people. Third are Salesmen, who possess natural persuasive power. Any idea that catches the interest of Mavens, Connectors, and Salesmen is likely to be broadcast far and wide. The second factor is "Stickiness." An idea must be expressed so that it motivates people to act. Otherwise, "The Law of the Few" will not lead to a self-sustaining epidemic. Finally, the third factor, "The Power of Context," controls whether those spreading an idea are able to organize groups and communities around it. Not everyone agrees with Gladwell's ideas.9 One team of viral marketing experts cautions that although in- fluencers or "alphas" start trends, they are often too introspective and socially alienated to spread them. They advise marketers to cultivate "bees," hyperdevoted customers who are not satisfied just knowing about the next trend but live to spread the word.10 More firms are in fact finding ways to actively engage their passionate brand evangelists. LEGO's Ambassador Program targets its most enthusiastic followers for brainstorming and feedback.11 Some firms are exploring ways to identify the most influential and potentially lucrative customers online.12 ScOring cOnSuMerS OnLine To better profile and market to customers, firms are ex- ploring different ways to score consumers online. E-scores go beyond personal credit reports to estimate a consumer's buy- ing power. They take into account factors such as occupation, salary, and home value as well as the amount and nature of luxury and non-luxury purchases. Independent suppliers like EBureau amass the personal information and combine it with a company's customer database to score a customer from 0 (unprofitable) to 99 (likely to return an investment). Another area of online scoring is influence measurement. A pioneer in the field, Klout measures the clout a person has online with its Klout Scores. Klout Scores range from 0 to 100 and are based on analysis of 400 different factors—and 12 billion pieces of data a day—like how influential your followers are and how many people retweet or respond to your messages. President Obama scored a near-perfect 99; singer Justin Bieber scored an impressive 92. Companies like Chevrolet pay Klout to identify and contact influencers for auto purchases. Those people targeted by Chevrolet are given special perks, like a three- day test drive of a Volt, in hopes that they will talk up the car on social media. Of course, much word-of-mouth is offline person-to-person communication—face to face or over the phone. One of the most valuable sources of information is almost always "people I know and trust."13 Some word-of- mouth tactics walk a fine line between acceptable and unethical. One controversial tactic, sometimes called shill marketing or stealth marketing, pays people to anonymously promote a product or service in public places without disclosing their financial relationship to the sponsoring firm. To launch its T681 mobile camera phone, Sony Ericsson hired actors dressed as tourists to approach people at tourist locations and ask to have their photo taken. Handing over the mobile phone created an opportunity to discuss its merits, but many found the deception distasteful.14 Shill marketing is also a problem online, where the legitimacy of a customer or so-called expert reviewer may be hard to verify. family The family is the most important consumer buying organization in society, and family members constitute the most influential primary reference group.15 There are two families in the buyer's life. The family of orientation consists of parents and siblings. From parents a person acquires an orientation toward religion, politics, and economics and a sense of personal ambition, self-worth, and love.16 Even if the buyer no longer interacts very much with his or her parents, parental influence on behavior can be significant. Almost 40 percent of families have auto insurance with the same company as the husband's parents. A more direct influence on everyday buying behavior is the family of procreation—namely, the person's spouse and children. In the United States, in a traditional husband–wife relationship, engagement in purchases has varied widely by product category. The wife has usually acted as the family's main purchasing agent, especially for food, sundries, and staple clothing items. Now traditional purchasing roles are changing, and marketers would be wise to see both men and women as possible targets. For expensive products and services such as cars, vacations, or housing, the vast majority of husbands and wives engage in joint decision making.17 Men and women may respond differently to marketing messages, however. Research has shown that women value connections and relationships with family and friends and place a higher priority on people than on companies. Men, on the other hand, relate more to competition and place a high pri- ority on action.18 Marketers have taken direct aim at women with new products such as Quaker's Nutrition for Women cereals and Crest Rejuvenating Effects toothpaste. AnAlyzing ConsumeR mARkeTs | chapter 6 161 Another shift in buying patterns is an increase in the amount of dollars spent by and the direct and indirect influence wielded by children and teens. Direct influence describes children's hints, requests, and demands— "I want to go to McDonald's." Indirect influence means parents know the brands, product choices, and preferences of their children without hints or outright requests—"I think Jake and Emma would want to go to Panera." Research has shown that more than two-thirds of 13- to 21-year-olds make or influence family purchase de- cisions on audio/video equipment, software, and vacation destinations.19 In total, these teens and young adults spend more than $120 billion a year. They report that to make sure they buy the right products, they watch what their friends say and do as much as what they see or hear in an ad or are told by a salesperson in a store. Television can be especially powerful in reaching children, and marketers are using it to target them at younger ages than ever before with product tie-ins for just about everything—Disney Princess character pajamas, retro G.I. Joe toys and action figures, Dora the Explorer backpacks, and Toy Story playsets. By the time children are about 2 years old, they can often recognize characters, logos, and specific brands. They can distinguish between advertising and programming by about ages 6 or 7. A year or so later, they can understand the concept of persuasive intent on the part of advertisers. By 9 or 10, they can perceive the discrepancies between message and product.20 Roles and sTaTus We each participate in many groups—family, clubs, organizations—and these are often an important source of information and help to define norms for behavior. We can define a person's position in each group in terms of role and status. A role consists of the activities a person is expected to perform. Each role in turn connotes a status. A senior vice president of marketing may have more status than a sales manager, and a sales manager may have more status than an office clerk. People choose products that reflect and communicate their role and their actual or desired status in society. Marketers must be aware of the status-symbol potential of products and brands. Personal FaCtors Personal characteristics that influence a buyer's decision include age and stage in the life cycle, occupation and economic circumstances, personality and self-concept, and lifestyle and values. Because many of these have a di- rect impact on consumer behavior, it is important for marketers to follow them closely. See how well you do with "Marketing Memo: The Average U.S. Consumer Quiz." aGe and sTaGe in The life cycle Our taste in food, clothes, furniture, and recreation is often related to our age. Consumption is also shaped by the family life cycle and the number, age, and gender of people in the household at any point in time. U.S. households are increasingly fragmented—the traditional family of four with a husband, wife, and two kids makes up a much smaller percentage of total households than it once did. The 2010 census revealed that the average U.S. household size was 2.6 persons.21 In addition, psychological life-cycle stages may matter. Adults experience certain passages or transformations as they go through life.22 Their behavior during these intervals, such as when becoming a parent, is not necessarily fixed but changes with the times. Marketers should also consider critical life events or transitions—marriage, childbirth, illness, relocation, di- vorce, first job, career change, retirement, death of a spouse—as giving rise to new needs. These should alert service providers—banks, lawyers, and marriage, employment, and bereavement counselors—to ways they can help. Many of Disney's successful products for kids involve tie-ins with their popular TV or movie franchises. So ur ce : © D ir ec tp ho to C ol le ct io n / A la m y 162 PART 3 | ConneCTing WiTh CusTomeRs Not surprisingly, the baby industry attracts many marketers given the enormous amount parents spend—it's estimated to be a $36 billion market annually—and its life-changing nature.23 The BaBy MarkeT Although they may not yet have reached their full earning potential, expectant and new parents seldom hold back when spending on their loved ones, making the baby industry more recession-proof than most. Spending tends to peak between the second trimester of pregnancy and the 12th week after birth. First-time mothers-to-be are especially attractive targets given the fact they will be unable to use many hand-me-downs and will need to buy the full range of new furniture, strollers, toys, and baby supplies. Recognizing the importance of reaching expectant parents early to win their trust—industry pundits call it a "first in, first win" opportunity—marketers use a variety of media including direct mail, inserts, space ads, e-mail marketing, and Web sites. Product samples are especially popular; kits are often given at childbirth education classes and other places. Many hospitals have banned the traditional bedside gift bag, though, concerned with privacy and potentially adverse effects on a vulnerable audience (for example, distributing baby for- mula may discourage new mothers from breast-feeding). Avenues of access still exist. Partnering with a company that sells baby bedside photos, Disney Baby hands out playful Disney Cuddly Bodysuits and solicits sign-ups for e-mail alerts from DisneyBaby.com. Not all expenditures go directly to the baby. Going through such a fundamental life change, expectant or new parents have a whole new set of needs that has them thinking differently about life insurance, financial services, real estate, home improvement, and automobiles. Listed below is a series of statements used in attitude surveys of U.S. consumers. For each statement, estimate what percent of U.S. men and women agreed with it in 2012 and write your answer, a number between 0 percent and 100 percent, in the columns to the right. Then check your results against the correct answers in the footnote.* Percent of Consumers Agreeing Statements % Men % Women 1. Most companies today are becoming too inhuman and impersonal when it comes to connecting with their customers _____ _____ 2. Even if others might find it offensive, it is always OK to speak what is on your mind _____ _____ 3. I appreciate the influence that other cultures are having on the American way of life _____ _____ 4. One of the reasons this country is losing its leadership position in the world is because parents don't push their kids hard enough to succeed _____ _____ 5. The food and beverage industry should take more responsibility for helping solve the obesity problem in the U.S. _____ _____ 6. I believe I will become rich in my lifetime _____ _____ 7. I could not get by without my cell phone/smart phone (among those who have a cell phone) _____ _____ 8. I'd really like to start my own business _____ _____ 9. I feel that I have to take whatever I can get in this world because no one is going to give me anything _____ _____ 10. Protecting my personal information and privacy is more of a concern now than it was a few years ago _____ _____ Note: Results are from a nationally representative sample of more than 4,000 respondents surveyed in 2012. Source: The Futures Company Yankelovich MONITOR (with permission). Copyright 2012, Yankelovich, Inc. The Average U.S. Consumer Quizmarketing memo 1. M = 81%, W = 81%; 2. M = 61%, W = 49%; 3. M = 67%, W = 63%; 4. M = 64%, W = 58%; 5. M = 61%, W = 60%; 6. M = 42%, W = 30%; 7. M = 45%, W = 51%; 8. M = 47%, W = 34%; 9. M = 66%, W = 52%; 10. M = 91%, W = 93% *Answers AnAlyzing ConsumeR mARkeTs | chapter 6 163 occupaTion and economic ciRcumsTances Occupation also influences consumption patterns. Marketers try to identify the occupational groups that have above-average interest in their products and services and even tailor products for certain occupational groups: Computer software companies, for example, design different products for brand managers, engineers, lawyers, and physicians. As the recent prolonged recession clearly indicated, both product and brand choice are greatly affected by economic circumstances like spendable income (level, stability, and pattern over time), savings and assets (including the percent- age that is liquid), debts, borrowing power, and attitudes toward spending and saving. Although luxury-goods makers such as Gucci, Prada, and Burberry may be vulnerable to an economic downturn, some luxury brands did surprisingly well in the latest recession.24 If economic indicators point to a recession, market- ers can take steps to redesign, reposition, and reprice their products or introduce or increase the emphasis on discount brands so they can continue to offer value to target customers. peRsonaliTy and self-concepT By personality, we mean a set of distinguishing human psychological traits that lead to relatively consistent and enduring responses to environmental stimuli including buying behavior. We often describe personality in terms of such traits as self-confidence, dominance, autonomy, deference, sociability, defensiveness, and adaptability.25 Brands also have personalities, and consumers are likely to choose brands whose personalities match their own. We define brand personality as the spe- cific mix of human traits that we can attribute to a particular brand. Stanford's Jennifer Aaker researched brand personalities and identified the following traits:26 1. Sincerity (down to earth, honest, wholesome, and cheerful) 2. Excitement (daring, spirited, imaginative, and up to date) 3. Competence (reliable, intelligent, and successful) 4. Sophistication (upper-class and charming) 5. Ruggedness (outdoorsy and tough) Aaker analyzed some well-known brands and found that a number tended to be strong on one particular trait: Levi's on "ruggedness"; MTV on "excitement"; CNN on "competence"; and Campbell's on "sincerity." These brands will, in theory, attract users high on the same traits. A brand personality may have several attributes: Levi's suggests a personality that is also youthful, rebellious, authentic, and American. A cross-cultural study exploring the generalizability of Aaker's scale outside the United States found three of the five factors applied in Japan and Spain, but a "peacefulness" dimension replaced "ruggedness" in both countries, and a "passion" dimension emerged in Spain instead of "competence."27 Research on brand personality in Korea revealed two culture-specific factors—"passive likeableness" and "ascendancy"—reflecting the importance of Confucian values in Korea's social and economic systems.28 Consumers often choose and use brands with a brand personality consistent with their actual self-concept (how we view ourselves), though the match may instead be based on the consumer's ideal self-concept (how we would like to view ourselves) or even on others' self-concept (how we think others see us).29 These effects may also be more pronounced for publicly consumed products than for privately consumed goods.30 On the other hand, consumers who are high "self-monitors"—that is, sensitive to the way others see them—are more likely to choose brands whose personalities fit the consumption situation.31 Finally, multiple aspects of self (serious professional, caring family member, active fun-lover) may often be evoked differently in different situations or around different types of people. Some marketers carefully orchestrate brand experiences to express brand personalities. Here's how San Francisco's Joie de Vivre does this.32 JOie de ViVre Joie de Vivre Hotels operates a chain of boutique hotels and resorts in the San Francisco area as well as Arizona, Illinois, and Hawaii. Each property's unique décor, quirky amenities, and thematic style are loosely based on popular magazines. For example, The Hotel del Sol—a converted motel bearing a yellow exterior and surrounded by palm trees wrapped in festive lights—is described as "kind of Martha Stewart Living meets Islands magazine." The The baby market, targeting expectant and new parents, is highly lucrative for marketers. So ur ce : P au l B ra db ur y/ G et ty I m ag es 164 PART 3 | ConneCTing WiTh CusTomeRs Phoenix, represented by Rolling Stone, is, like the magazine, described as "adventurous, hip, irreverent, funky, and young at heart." Each one of Joie de Vivre's more than 30 hotels is an original concept designed to reflect its location and engage the five senses. The boutique concept enables the hotels to offer personal touches, such as vitamins in place of chocolates on pillows. lifesTyle and Values People from the same subculture, social class, and occupation may adopt quite different lifestyles. A lifestyle is a person's pattern of living in the world as expressed in activities, interests, and opinions. It portrays the "whole person" interacting with his or her environment. Marketers search for relationships between their products and lifestyle groups. A computer manufacturer might find that most computer buyers are achievement-oriented and then aim the brand more clearly at the achiever lifestyle. Lifestyles are shaped partly by whether consumers are money constrained or time constrained. Companies aim- ing to serve the money-constrained will create lower-cost products and services. By appealing to thrifty consum- ers, Walmart has become the largest company in the world. Its "everyday low prices" have wrung tens of billions of dollars out of the retail supply chain, passing the larger part of savings along to shoppers in the form of rock- bottom bargain prices. Consumers who experience time famine are prone to multitasking, doing two or more things at the same time. They will also pay others to perform tasks because time is more important to them than money. Companies aiming to serve them will create products and services that offer multiple time-saving benefits. For example, multitasking blemish balm (BB) skin creams offer an all-in-one approach to skin care—incorporating moisturizer, anti-aging ingredients, sunscreen, and maybe even whitening.33 In some categories, notably food processing, companies targeting time-constrained consumers need to be aware that these very same people want to believe they're not operating within time constraints. Marketers call those who seek both convenience and some involvement in the cooking process the "convenience involvement seg- ment," as Hamburger Helper discovered.34 haMBurger heLPer Launched in 1971 in response to tough economic times, the inexpensive pasta-and-powdered-mix Hamburger Helper was designed to quickly and inexpensively stretch a pound of meat into a family meal. With an estimated 44 percent of evening meals prepared in under 30 minutes and given strong competi- tion from fast-food drive-through windows, restaurant deliveries, and precooked grocery store dishes, it might seem that Hamburger Helper's days of prosperity are numbered. Market researchers found, however, that some consumers don’t want the fastest microwaveable solution possible—they also want to feel good about how they prepare a meal. In fact, on average, they prefer to use at least one pot or pan and 15 minutes of time. To remain attractive to this segment, market- ers of Hamburger Helper are always introducing new flavors and varieties such as Tuna Helper, Asian Chicken Helper, and Whole Grain Helper to tap into evolving consumer taste trends. Not surprisingly, the latest economic downturn saw brand sales steadily rise. Each of Joie de Vivre's hotel properties has a personality loosely based on a popular magazine, as with the Rolling Stone-inspired Phoenix hotel. So ur ce : I m ag e pr ov id ed b y C om m un e H ot el s + R es or ts . P ho to b y K el ly I sh ik aw a. AnAlyzing ConsumeR mARkeTs | chapter 6 165 Consumer decisions are also influenced by core values, the belief systems that underlie attitudes and behaviors. Core values go much deeper than behavior or attitude and at a basic level guide people’s choices and desires over the long term. Marketers who target consumers on the basis of their values believe that with appeals to people’s in- ner selves, it is possible to influence their outer selves—their purchase behavior. Key Psychological Processes The starting point for understanding consumer behavior is the stimulus-response model shown in Figure 6.1. Marketing and environmental stimuli enter the consumer’s consciousness, and a set of psychological processes combine with certain consumer characteristics to result in decision processes and purchase decisions. The mar- keter’s task is to understand what happens in the consumer’s consciousness between the arrival of the outside marketing stimuli and the ultimate purchase decisions. Four key psychological processes—motivation, percep- tion, learning, and memory—fundamentally influence consumer responses. MotIvatIon We all have many needs at any given time. Some needs are biogenic; they arise from physiological states of tension such as hunger, thirst, or discomfort. Other needs are psychogenic; they arise from psychological states of tension such as the need for recognition, esteem, or belonging. A need becomes a motive when it is aroused to a sufficient level of intensity to drive us to act. Motivation has both direction—we select one goal over another—and inten- sity—we pursue the goal with more or less vigor. Three of the best-known theories of human motivation—those of Sigmund Freud, Abraham Maslow, and Frederick Herzberg—carry quite different implications for consumer analysis and marketing strategy. fReud’s TheoRy Sigmund Freud assumed the psychological forces shaping people’s behavior are largely unconscious and that a person cannot fully understand his or her own motivations. Someone who examines specific brands will react not only to their stated capabilities but also to other, less conscious cues such as shape, size, weight, material, color, and brand name. A technique called laddering lets us trace a person’s motivations from the stated instrumental ones to the more terminal ones. Then the marketer can decide at what level to develop the message and appeal.35 Motivation researchers often collect in-depth interviews with a few dozen consumers to uncover deeper mo- tives triggered by a product. They use various projective techniques such as word association, sentence completion, picture interpretation, and role playing, many pioneered by Ernest Dichter, a Viennese psychologist who settled in the United States.36 Dichter’s research led him to believe that for women, pulling a cake out of the oven was like “giving birth.” Because having women only add water to a cake mix could seem to marginalize their role, Dichter’s research sug- gested having them also add an egg, a symbol of fertility, a practice used to this day.37 Another motivation researcher, cultural anthropologist Clotaire Rapaille, works on breaking the “code” behind product behavior—the unconscious meaning people give to a particular market offering. Rapaille worked with Boeing on its 787 “Dreamliner” to identify features in the airliner’s interior that would have universal appeal. Based Marketing Stimuli Products & services Price Distribution Communications Buying Decision Process Problem recognition Information search Evaluation of alternatives Purchase decision Post-purchase behavior Purchase Decision Product choice Brand choice Dealer choice Purchase amount Purchase timing Payment method Other Stimuli Economic Technological Political Cultural Consumer Psychology Motivation Perception Learning Memory Consumer Characteristics Cultural Social Personal | Fig. 6.1 | Model of Consumer Behavior 166 PART 3 | ConneCTing WiTh CusTomeRs in part on his research, the Dreamliner has a spacious foyer; larger, curved luggage bins closer to the ceiling; larger, electronically dimmed windows; and a ceiling discreetly lit by hidden LEDs.38 maslow’s TheoRy Abraham Maslow sought to explain why people are driven by particular needs at particular times.39 His answer is that human needs are arranged in a hierarchy from most to least pressing—from physiological needs to safety needs, social needs, esteem needs, and self-actualization needs (see Figure 6.2). People will try to satisfy their most important need first and then move to the next. For example, a starving man (need 1) will not take an interest in the latest happenings in the art world (need 5), nor in the way he is viewed by others (need 3 or 4), nor even in whether he is breathing clean air (need 2), but when he has enough food and water, the next most important need will become salient. heRzbeRG’s TheoRy Frederick Herzberg developed a two-factor theory that distinguishes dissatisfiers (factors that cause dissatisfaction) from satisfiers (factors that cause satisfaction).40 The absence of dissatisfiers is not enough to motivate a purchase; satisfiers must be present. For example, a computer that does not come with a warranty is a dissatisfier. Yet the presence of a product warranty does not act as a satisfier or motivator of a purchase because it is not a source of intrinsic satisfaction. Ease of use is a satisfier. Physiological Needs (food, water, shelter) Safety Needs (security, protection) Social Needs (sense of belonging, love) Esteem Needs (self-esteem, recognition, status) Self- actualization Needs (self-development and realization) 1 2 3 4 5 | Fig. 6.2 | Maslow’s Hierarchy of Needs Source: A. H. Maslow, Motivation and Personality, 3rd ed. (Upper Saddle River, NJ: Prentice Hall, 1987). Printed and electronically reproduced by permission of Pearson Education, Inc., Upper Saddle River, NJ. In-depth motivational research on product meaning helped Boeing design its 787 Dreamliner. So ur ce : © J oh n K ea te s / A la m y AnAlyzing ConsumeR mARkeTs | chapter 6 167 Herzberg’s theory has two implications. First, sellers should do their best to avoid dissatisfiers (for example, a poor training manual or a poor service policy). Although these things will not sell a product, they might easily unsell it. Second, the seller should identify the major satisfiers or motivators of purchase in the market and then supply them. PerCePtIon A motivated person is ready to act—how is influenced by his or her perception of the situation. In marketing, per- ceptions are more important than reality because they affect consumers’ actual behavior. Perception is the pro- cess by which we select, organize, and interpret information inputs to create a meaningful picture of the world.41 Consumers perceive many different kinds of information through their senses, as reviewed in “Marketing Memo: The Power of Sensory Marketing.” Sensory marketing has been defined as “marketing that engages the consumers’ senses and affects their perception, judgment and behavior.” In other words, sensory marketing is an application of the understanding of sensation and perception to the field of marketing. All five senses may be engaged with sensory marketing: sight, sound, smell, taste, and feel. In a 2012 Journal of Consumer Psychology article, Aradhna Krishna offers an excellent review of the rapidly accumulating academic research on this topic. In doing so, she notes, “Given the gamut of explicit marketing appeals made to consumers every day, subconscious ‘triggers’ which may appeal to the basic senses may be a more efficient way to engage consumers.” In other words, consumers’ own inferences about a product’s attributes may be more per- suasive, at least in some cases, than explicit claims from an advertiser. Krishna argues that sensory marketing’s effects can be manifested in two main ways. One, sensory marketing can be used subconsciously to shape consumer perceptions of more abstract qualities of a product or service (say, different aspects of its brand personality such as its sophistication, ruggedness, warmth, quality, and modernity). Two, sensory marketing can also be used to affect the perceptions of specific product or service attributes such as its color, taste, smell, or shape. Marketers certainly appreciate the importance of sensory marketing. Many hotels, retailers, and other service establishments use signature scents to set a mood and distinguish themselves. Westin’s White Tea scent was so popular it began to sell it for home use. Although NBC, Intel, and Yahoo! have trademarked their brand jingles (or yodels), Harley-Davidson was unsuccessful trademarking its distinctive engine roar. In packaging, companies try to find shapes that are pleasing to the touch, and in food advertising, visual and verbal depictions try to tantalize consumers’ taste buds. Based on Krishna’s review of academic research in psychology and marketing, we next highlight some key considerations for each of the five senses. Touch (haptics) Touch is the first sense to develop and the last sense we lose with age. People vary in their need for touch, and Peck and Childers have developed a scale to capture those differences. In one application, high need-for-touch (NFT) individuals were more confident and less frustrated about their product evaluations when they could actually touch a product than when they could only see it. For low NFT individuals, touching did not matter one way or another. Written prod- uct descriptions helped alleviate the NFT’s level of frustration, though only for more concrete product attributes (such as the weight of a cell phone). Smell Scent-encoded information has been shown to be more durable and last longer in memory than information encoded with other sensory cues. People can recognize scents after very long lapses of time, and using scents as reminders can cue all kinds of autobiographical memories. Pleasant scents have also been show to enhance evaluations of products and stores. Consumers also take more time shopping and engage in more variety seeking in the presence of pleasant scents. Sound (audition) Marketing communications by their very nature are often auditory in nature. Even the sounds that make up a word can carry meanings. One study showed that Frosh-brand ice cream sounded creamier than Frish-brand ice cream. Language too can have its own associations. In bilingual cultures where English is the second language—such as Japan, Korea, Germany, and India—use of English in ads signals modernity, progress, sophistication, and a cosmopolitan identity. Ambient music in a store has also been shown to influence consumer mood, time spent in a location, perception of time spent in a location, and spending. Taste Humans can distinguish only five pure tastes: sweet, salty, sour, bitter, and umami. Umami comes from Japanese food researchers and stands for “delicious” or “savory” as it relates to the taste of pure protein or monosodium glutonate (MSG). Taste perceptions themselves depend on all the other senses—the way a food looks, feels, smells, and sounds to eat. Thus many factors have been shown to affect taste perceptions, including physical attributes, brand name, product The Power of Sensory Marketingmarketing memo 168 PART 3 | ConneCTing WiTh CusTomeRs information (ingredients, nutritional information), product packaging, and advertising. Foreign-sounding brand names can improve ratings of yogurt, and ingre- dients that sound unpleasant (balsamic vinegar or soy) can affect consumers taste perceptions if disclosed before product consumption. Vision Visual effects have been studied in detail in an advertising context. Many visual perception biases or illusions exist in day-to-day consumer behavior. For example, people judge tall thin containers to contain more volume than short fat ones, but after drinking from the containers, people actually feel they have consumed more from short fat containers than tall thin containers, over-adjusting their expectations. Even something as simple as the way a mug is depicted in an ad can affect product evaluations. A mug photographed with the handle on the right side was shown to elicit more mental stimulation and product purchase intent from right-handed people than if shown with the handle on the left side. Sources: Aradhna Krishna, Sensory Marketing: Research on the Sensuality of Products (New York: Routledge, 2010); Aradhna Krishna, “An Integrative Review of Sensory Marketing: Engaging the Senses to Affect Perception, Judgment and Behavior,” Journal of Consumer Psychology 22 (July 2012), pp. 332–51; Joann Peck and Terry L. 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Schmitt, and Laurette Dube, “Foreign Branding and Its Effect on Product Perceptions and Attitudes,” Journal of Marketing Research 31 (May 1994), pp. 263–70; Priya Raghubir and Aradhna Krishna, “Vital Dimensions: Antecedents and Consequences of Biases in Volume Perceptions,” Journal of Marketing Research 36 (August 1994), pp. 313–26; Ryan S. Elder and Aradhna Krishna, “The ‘Visual Depiction Effect’ in Advertising: Facilitating Embodied Mental Simulation through Product Orientation,” Journal of Consumer Research 38 (April 2012), pp. 988–1003. Perception depends not only on physical stimuli but also on the stimuli’s relationship to the surrounding envi- ronment and on conditions within each of us. One person might perceive a fast-talking salesperson as aggressive and insincere, another as intelligent and helpful. Each will respond to the salesperson differently. People emerge with different perceptions of the same object because of three perceptual processes: selective at- tention, selective distortion, and selective retention. selecTiVe aTTenTion Attention is the allocation of processing capacity to some stimulus. Voluntary attention is something purposeful; involuntary attention is grabbed by someone or something. It’s estimated that the average person may be exposed to more than 1,500 ads or brand communications a day. Because we cannot possibly attend to all these, we screen most stimuli out—a process called selective attention. Selective attention means that marketers must work hard to attract consumers’ notice. The real challenge is to explain which stimuli people will notice. Here are some findings: 1. People are more likely to notice stimuli that relate to a current need. A person who is motivated to buy a smart phone will notice smart phone ads and be less likely to notice non-phone-related ads. 2. People are more likely to notice stimuli they anticipate. You are more likely to notice laptops than portable radios in a computer store because you don’t expect the store to carry portable radios. 3. People are more likely to notice stimuli whose deviations are large in relationship to the normal size of the stimuli. You are more likely to notice an ad offering $100 off the list price of a computer than one offering $5 off. Though we screen out much, we are influenced by unexpected stimuli, such as sudden offers in the mail, over the Internet, or from a salesperson. Marketers may attempt to promote their offers intrusively in order to bypass selec- tive attention filters. selecTiVe disToRTion Even noticed stimuli don’t always come across in the way the senders intended. Selective distortion is the tendency to interpret information in a way that fits our preconceptions. Consumers will often distort information to be consistent with prior brand and product beliefs and expectations. For a stark demonstration of the power of consumer brand beliefs, consider that in blind taste tests, one group of consumers samples a product without knowing which brand it is while another group knows. Invariably, the groups have different opinions, despite consuming exactly the same product. When consumers report different opinions of branded and unbranded versions of identical products, it must be the case that their brand and product beliefs, created by whatever means (past experiences, marketing activity for the brand, or the like), have somehow changed their product perceptions. We can find examples for virtually every AnAlyzing ConsumeR mARkeTs | chapter 6 169 type of product. When Coors changed its label from “Banquet Beer” to “Original Draft,” consumers claimed the taste had changed even though the formulation had not. Selective distortion can work to the advantage of marketers with strong brands when consumers distort neutral or ambiguous brand information to make it more positive. In other words, coffee may seem to taste better, a car may seem to drive more smoothly, and the wait in a bank line may seem shorter, depending on the brand. selecTiVe ReTenTion Most of us don’t remember much of the information to which we’re exposed, but we do retain information that supports our attitudes and beliefs. Because of selective retention, we’re likely to remember good points about a product we like and forget good points about competing products. Selective retention again works to the advantage of strong brands. It also explains why marketers need to use repetition—to make sure their message is not overlooked. subliminal peRcepTion The selective perception mechanisms require consumers’ active engagement and thought. Subliminal perception has long fascinated armchair marketers, who argue that marketers embed covert, subliminal messages in ads or packaging. Consumers are not consciously aware of them, yet they affect behavior. Although it’s clear that mental processes include many subtle subconscious effects,42 no evidence supports the notion that marketers can systematically control consumers at that level, especially enough to change strongly held or even moderately important beliefs.43 learnInG When we act, we learn. Learning induces changes in our behavior arising from experience. Most human behavior is learned, though much learning is incidental. Learning theorists believe learning is produced through the inter- play of drives, stimuli, cues, responses, and reinforcement. A drive is a strong internal stimulus impelling action. Cues are minor stimuli that determine when, where, and how a person responds. Suppose you buy an HP laptop computer. If your experience is rewarding, your response The size and shape of the glass and the color and smell of the liquid are all cues which may affect consumer perceptions and evaluations when drinking a glass of orange juice. So ur ce : © v al er y1 21 28 3/ Fo to lia 170 PART 3 | ConneCTing WiTh CusTomeRs to the laptop and HP will be positively reinforced. Later, when you want to buy a printer, you may assume that be- cause it makes good laptops, HP also makes good printers. In other words, you generalize your response to similar stimuli. A countertendency to generalization is discrimination. Discrimination means we have learned to recog- nize differences in sets of similar stimuli and can adjust our responses accordingly. Learning theory teaches marketers that they can build demand for a product by associating it with strong drives, using motivating cues, and providing positive reinforcement. A new company can enter the market by ap- pealing to the same drives competitors use and providing similar cues because buyers are more likely to transfer loyalty to similar brands (generalization); or the company might design its brand to appeal to a different set of drives and offer strong cue inducements to switch (discrimination). Some researchers prefer more active, cognitive approaches when learning depends on the inferences or inter- pretations consumers make about outcomes (Was an unfavorable consumer experience due to a bad product, or did the consumer fail to follow instructions properly?). The hedonic bias occurs when people have a general ten- dency to attribute success to themselves and failure to external causes. Consumers are thus more likely to blame a product than themselves, putting pressure on marketers to carefully explicate product functions in well-designed packaging and labels, instructive ads and Web sites, and so on. eMotIons Consumer response is not all cognitive and rational; much may be emotional and invoke different kinds of feel- ings. A brand or product may make a consumer feel proud, excited, or confident. An ad may create feelings of amusement, disgust, or wonder. Brands like Hallmark, McDonald’s, and Coca-Cola have made an emotional con- nection with loyal customers for years. Marketers are increasingly recognizing the power of emotional appeals—especially if these are rooted in some functional or rational aspects of the brand. Given it was released 10 years after Toy Story 2, Disney’s Toy Story 3 used social media to tap into feelings of nostalgia in its marketing.44 To help teen girls and young women feel more comfortable talking about feminine hygiene and feminine care products, Kimberly-Clark used four different social media networks in its “Break the Cycle” campaign for its new U by Kotex brand. With overwhelmingly positive feedback, the campaign helped Kotex move into the top spot in terms of share of word of mouth on feminine care for that target market.45 An emotion-filled brand story has been shown to trigger’s people desire to pass along things they hear about brands, through either word of mouth or on- line sharing. Firms are giving their communications a stronger human appeal to engage consumers in their brand stories.46 Many different kinds of emotions can be linked to brands. A classic example is Unilever’s Axe brand.47 axe A pioneer in product development—it established the male body wash category—and in its edgy sex appeals, Unilever’s Axe personal-care brand has become a favorite of young males all over the world. With scents employing different combina- tions of flowers, herbs, and spices, the Axe line includes deodorant body sprays, sticks, roll-ons, and shampoos. The brand was built on the promise of the “Axe Effect”—an over-the-top notion that using Axe products would get women to enthusiastically and sometimes even desperately pursue the user. For Axe, Unilever employs both traditional and nontraditional media with a heavy dose of sexual innuendo and humor. A recent social media–driven campaign gave a cheeky wink to environmentalism while advocating the practice of “showerpooling.” As one ad proclaimed, “When you Showerpool, you can save water while enjoying the company of a like-minded acquaintance, or even an attrac- tive stranger.” Facebook promotions, YouTube videos, and other social media messages all helped to spread the word. By cleverly serving as the “wing man” for confidence in the “mating game” —especially for 18- to 24-year-old males—the brand has become a key player in the multibillion-dollar male grooming market. Axe has concentrated grassroots marketing efforts on college campuses with brand ambassadors who hand out products, host parties, and generate buzz. A Twitter account dispenses advice and giveaways. Axe runs edgy promotional campaigns to connect with its young male target audience, like this Showerpooling event hosted by spokesperson and actress Nikki Reed. So ur ce : A SS O C IA T E D P R E SS AnAlyzing ConsumeR mARkeTs | chapter 6 171 Emotions can take all forms. Ray-Ban glasses and sunglasses’ 75th anniversary campaign “Never Hide” showed a variety of stand-out hipsters and stylish people to suggest wearers will feel attractive and cool. Some brands have tapped into the hip-hop culture and music to market a brand in a modern multicultural way, as Apple did with its iPod.48 MeMorY Cognitive psychologists distinguish between short-term memory (STM)—a temporary and limited repository of information—and long-term memory (LTM)—a more permanent, essentially unlimited repository. All the information and experiences we encounter as we go through life can end up in our long-term memory. Most widely accepted views of long-term memory structure assume we form some kind of associative model. For example, the associative network memory model views LTM as a set of nodes and links. Nodes are stored in- formation connected by links that vary in strength. Any type of information can be stored in the memory network, including verbal, visual, abstract, and contextual. A spreading activation process from node to node determines how much we retrieve and what information we can actually recall in any given situation. When a node becomes activated because we’re encoding external in- formation (when we read or hear a word or phrase) or retrieving internal information from LTM (when we think about some concept), other nodes are also activated if they’re associated strongly enough with that node. In this model, we can think of consumer brand knowledge as a node in memory with a variety of linked asso- ciations. The strength and organization of these associations will be important determinants of the information we can recall about the brand. Brand associations consist of all brand-related thoughts, feelings, perceptions, images, experiences, beliefs, attitudes, and so on, that become linked to the brand node. In this context we can think of marketing as a way of making sure consumers have product and service ex- periences that create the right brand knowledge structures and maintain them in memory. Companies such as Procter & Gamble like to create mental maps of consumers that depict their knowledge of a particular brand in terms of the key associations likely to be triggered in a marketing setting and their relative strength, favorability, and uniqueness to consumers. Figure 6.3 displays a very simple mental map highlighting some brand beliefs for a hypothetical consumer for State Farm insurance. memoRy pRocesses Memory is a very constructive process because we don’t remember information and events completely and accurately. Often we remember bits and pieces and fill in the rest based on whatever else we know. Memory encoding describes how and where information gets into memory. The strength of the resulting association depends on how much we process the information at encoding (how much we think about it, for in- stance) and in what way.49 In general, the more attention we pay to the meaning of information during encoding, the stronger the resulting associations in memory will be. Advertising research in a field setting suggests that high levels of repetition for an uninvolving, unpersuasive ad, for example, are unlikely to have as much sales impact as lower levels of repetition for an involving, persuasive ad.50 Dependable Good reputation Reliable Conservative Safe Around a long time Convenient Reputable Fast settlement Personal service “Good Neighbors” Agents that are part of my neighborhood Red color Good home and auto insurance Top-of-the-line insurance Responsive | Fig. 6.3 | Hypothetical State Farm Mental Map Source: Courtesy of State Farm Mutual Automobile Insurance Co. 172 PART 3 | ConneCTing WiTh CusTomeRs Memory retrieval is the way information gets out of memory. Three facts are important about memory retrieval. 1. The presence of other product information in memory can produce interference effects and cause us to either overlook or confuse new data. One marketing challenge in a category crowded with many competitors—for example, airlines, financial services, and insurance companies—is that consumers may mix up brands. 2. The time between exposure to information and encoding has been shown generally to produce only gradual decay. Cognitive psychologists believe memory is extremely durable, so once information becomes stored in memory, its strength of association decays very slowly. 3. Information may be available in memory but not be accessible for recall without the proper retrieval cues or reminders. The effectiveness of retrieval cues is one reason marketing inside a supermarket or any retail store is so critical—the product packaging and use of in-store mini-billboard displays remind us of information al- ready conveyed outside the store and become prime determinants of consumer decision making. Accessibility of a brand in memory is important for another reason: People talk about a brand when it is top-of-mind.51 The Buying Decision Process: The Five-Stage Model The basic psychological processes we’ve reviewed play an important role in consumers’ actual buying decisions. Table 6.2 provides a list of some key consumer behavior questions marketers should ask in terms of who, what, when, where, how, and why. Smart companies try to fully understand customers’ buying decision process—all the experiences in learn- ing, choosing, using, and even disposing of a product. Marketing scholars have developed a “stage model” of the Table 6.2 Understanding Consumer Behavior Who buys our product or service? Who makes the decision to buy the product or service? Who influences the decision to buy the product or service? How is the purchase decision made? Who assumes what role? What does the customer buy? What needs must be satisfied? What wants are fulfilled? Why do customers buy a particular brand? What benefits do they seek? Where do they go or look to buy the product or service? Online and/or offline? When do they buy? Any seasonality factors? Any time of day/week/month? How is our product or service perceived by customers? What are customers’ attitudes toward our product or service? What social factors might influence the purchase decision? Do customers’ lifestyles influence their decisions? How do personal, demographic, or economic factors influence the purchase decision? Source: Based in part on figure 1.7 from George Belch and Michael Belch, Advertising and Promotion: An Integrated Marketing Communications Perspective, 8th ed. (Homewood, IL: Irwin, 2009). AnAlyzing ConsumeR mARkeTs | chapter 6 173 process (see Figure 6.4). The consumer typically passes through five stages: problem recognition, information search, evaluation of alternatives, purchase decision, and postpurchase behavior. Clearly, the buying process starts long before the actual purchase and has consequences long afterward.52 Some consumers passively shop and may decide to make a purchase from unsolicited information they encounter in the normal course of events.53 Recognizing this fact, marketers must develop activities and programs that reach consumers at all decision stages. Consider how Procter & Gamble launched a new CoverGirl “Smokey Eye Look” makeup kit.54 P&g cOVergirL To create awareness at product launch, P&G sent makeup bloggers “Makeup Master” kits with packs of mascara, eyeliner, and eye shadow along with application instructions, blogging tips, product photo- graphs, and a CoverGirl-emblazoned director’s chair before the product was available in stores. At stores, CoverGirl created attention and interest with live product demonstrations, co-branded print ads with Walmart, and cardboard trays displaying product features and the product kits themselves. After they bought, purchasers were encouraged via Facebook and other online campaigns to provide feedback and write reviews to influence others. The brand’s Facebook page featured testimo- nies from celebrities Ellen DeGeneres and Sofia Vergara. CoverGirl is one of P&G’s most digitally supported brands, recog- nizing the high level of consumer involvement and the need to stay up to date. P&G is also supporting CoverGirl via mobile marketing through targeted ads and a microsite with experts’ tips and video on proper application. Consumers don’t always pass through all five stages—they may skip or reverse some. When you buy your regu- lar brand of toothpaste, you go directly from the need to the purchase decision, skipping information search and evaluation. The model in Figure 6.4 provides a good frame of reference, however, because it captures the full range of considerations that arise when a consumer faces a highly involving or new purchase. Later in the chapter, we will consider other ways consumers make decisions that are less calculated. ProbleM reCoGnItIon The buying process starts when the buyer recognizes a problem or need triggered by internal or external stimuli. With an internal stimulus, one of the person’s normal needs—hunger, thirst, sex—rises to a threshold level and becomes a drive. A need can also be aroused by an external stimulus. A person may admire a friend’s new car or see a television ad for a Hawaiian vacation, which inspires thoughts about the possibility of making a purchase. Marketers need to identify the circumstances that trigger a particular need by gathering information from a number of consumers. They can then develop marketing strategies that spark consumer interest. Particularly for discretionary purchases such as luxury goods, vacation packages, and entertainment options, marketers may need to increase consumer motivation so a potential purchase gets serious consideration. Problem recognition Information search Evaluation of alternatives Purchase decision Postpurchase behavior | Fig. 6.4 | Five-Stage Model of the Consumer Buying Process P&G engages consumers at every stage of the buying process for its Cover Girl brand. So ur ce : © V la dy sl av S ta ro zh yl ov / A la m y 174 PART 3 | ConneCTing WiTh CusTomeRs InFoRMatIon searCh Surprisingly, consumers often search for only limited information. Surveys have shown that for durables, half of all consumers look at only one store, and only 30 percent look at more than one brand of appliances. We can distinguish between two levels of engagement in the search. The milder search state is called heightened attention. At this level a person simply becomes more receptive to information about a product. At the next level, the person may enter an active information search: looking for reading material, phoning friends, going online, and visiting stores to learn about the product. Marketers must understand what type of information consumers seek—or are at least receptive to—at different times and places.55 Unilever, in collaboration with Kroger, the largest U.S. retail grocery chain, has learned that meal planning goes through a three-step process: discussion of meals and what might go into them; choice of ex- actly what will go into a particular meal, and finally purchase. Mondays turn out to be critical days for planning for the week. Conversations at breakfast time tend to focus on health, but later in the day, at lunch, discussion centers more on how meals could possibly be repurposed for leftovers.56 infoRmaTion souRces Major information sources to which consumers will turn fall into four groups: • Personal. Family, friends, neighbors, acquaintances • Commercial. Advertising, Web sites, e-mails, salespersons, dealers, packaging, displays • Public. Mass media, social media, consumer-rating organizations • Experiential. Handling, examining, using the product The relative amount of information and influence of these sources vary with the product category and the buyer’s characteristics. Generally speaking, although consumers receive the greatest amount of information about a product from commercial—that is, marketer-dominated—sources, the most effective information often comes from personal or experiential sources or public sources that are independent authorities.57 Each source performs a different function in influencing the buying decision. Commercial sources normally perform an information function, whereas personal sources perform a legitimizing or evaluation function. For example, physicians often learn of new drugs from commercial sources but turn to other doctors for evaluations. Many consumers alternate between going online and offline (in stores) to learn about products and brands. seaRch dynamics By gathering information, the consumer learns about competing brands and their features. The first box in Figure 6.5 shows the total set of brands available. The individual consumer will come to know a subset of these, the awareness set. Only some, the consideration set, will meet initial buying criteria. As the consumer gathers more information, just a few, the choice set, will remain strong contenders. The consumer makes a final choice from these.58 Marketers need to identify the hierarchy of attributes that guide consumer decision making in order to under- stand different competitive forces and how these various sets get formed. This process of identifying the hierarchy is called market partitioning. Years ago, most car buyers first decided on the manufacturer and then on one of its car divisions (brand-dominant hierarchy). A buyer might favor General Motors cars and, within this set, Chevrolet. Today, many buyers decide first on the nation or nations from which they want to buy a car (nation-dominant hier- archy). Buyers may first decide they want to buy a German car, then Audi, and then the A4 model of Audi. The hierarchy of attributes also can reveal customer segments. Buyers who first decide on price are price dominant; those who first decide on the type of car (sports, passenger, hybrid) are type dominant; those who Apple Dell Hewlett-Packard Toshiba Compaq NEC . . . Apple Dell Hewlett-Packard Toshiba Compaq Apple Dell Toshiba Apple Dell ? Total Set Awareness Set Consideration Set DecisionChoice Set | Fig. 6.5 | Successive Sets Involved in Consumer Decision Making AnAlyzing ConsumeR mARkeTs | chapter 6 175 choose the brand first are brand dominant. Type/price/brand-dominant consumers make up one segment; quality/service/type buyers make up another. Each may have distinct demographics, psychographics, and mediagraphics and different awareness, consideration, and choice sets. Figure 6.5 makes it clear that a company must strategize to get its brand into the prospect’s awareness, consider- ation, and choice sets. If a food store owner arranges yogurt first by brand (such as Dannon and Yoplait) and then by flavor within each brand, consumers will tend to select their flavors from the same brand. However, if all the strawberry yogurts are together, then all the vanilla, and so forth, consumers will probably choose the flavors they want first and then choose the brand name they want for that particular flavor. Search behavior can vary online, in part because of the manner in which product information is presented. For example, product alternatives may be presented in order of their predicted attractiveness for the consumer. Consumers may then choose not to search as extensively as they would otherwise.59 The company must also identify the other brands in the consumer’s choice set so that it can plan the appropriate competitive appeals. In addition, marketers should identify the consumer’s information sources and evaluate their relative importance. Asking consumers how they first heard about the brand, what information came later, and the relative importance of the different sources will help the company prepare effective communications for the target market. evaluatIon oF alternatIves How does the consumer process competitive brand information and make a final value judgment? No single process is used by all consumers or by one consumer in all buying situations. There are several processes, and the most current models see the consumer forming judgments largely on a conscious and rational basis. Some basic concepts will help us understand consumer evaluation processes. First, the consumer is trying to satisfy a need. Second, the consumer is looking for certain benefits from the product solution. Third, the consumer sees each product as a bundle of attributes with varying abilities to deliver the benefits. The attributes of interest to buyers vary by product—for example: 1. Hotels—Location, cleanliness, atmosphere, price 2. Mouthwash—Color, effectiveness, germ-killing capacity, taste/flavor, price 3. Tires—Safety, tread life, ride quality, price Consumers will pay the most attention to attributes that deliver the sought-after benefits. We can often segment the market for a product according to attributes and benefits important to different consumer groups. beliefs and aTTiTudes Through experience and learning, people acquire beliefs and attitudes. These in turn influence buying behavior. A belief is a descriptive thought that a person holds about something. Just as important are attitudes, a person’s enduring favorable or unfavorable evaluations, emotional feelings, and action tendencies toward some object or idea. People have attitudes toward almost everything: religion, politics, clothes, music, or food. Attitudes put us into a frame of mind: liking or disliking an object, moving toward or away from it. They lead us to behave in a fairly consistent way toward similar objects. Because attitudes economize on energy and thought, they can be very difficult to change. As a general rule, a company is well advised to fit its product into existing at- titudes rather than try to change attitudes. If beliefs and attitudes become too negative, however, more active steps may be necessary. expecTancy-Value model The consumer arrives at attitudes toward various brands through an attribute-evaluation procedure, developing a set of beliefs about where each brand stands on each attribute.60 The expectancy-value model of attitude formation posits that consumers evaluate products and services by combining their brand beliefs—the positives and negatives—according to importance. Suppose Linda has narrowed her choice set to four laptops (A, B, C, and D). Assume she’s interested in four attributes: memory capacity, graphics capability, size and weight, and price. Table 6.3 shows her beliefs about how each brand rates on the four attributes. If one computer dominated the others on all the criteria, we could predict that Linda would choose it. But, as is often the case, her choice set consists of brands that vary in their appeal. If Linda wants the best memory capacity, she should buy C; if she wants the best graphics capability, she should buy A; and so on. If we knew the weights Linda attaches to the four attributes, we could more reliably predict her choice. Suppose she assigned 40 percent of the importance to the laptop’s memory capacity, 30 percent to graphics capability, 20 percent to size and weight, and 10 percent to price. To find Linda’s perceived value for each laptop according to 176 PART 3 | ConneCTing WiTh CusTomeRs the expectancy-value model, we multiply her weights by her beliefs about each computer’s attributes. This compu- tation leads to the following perceived values: Laptop A = 0.4182 + 0.3192 + 0.2162 + 0.1192 = 8.0 Laptop B = 0.4172 + 0.3172 + 0.2172 + 0.1172 = 7.0 Laptop C = 0.41102 + 0.3142 + 0.2132 + 0.1122 = 6.0 Laptop D = 0.4152 + 0.3132 + 0.2182 + 0.1152 = 5.0 An expectancy-model formulation predicts that Linda will favor laptop A, which (at 8.0) has the highest per- ceived value.61 Suppose most laptop buyers form their preferences the same way. Knowing this, the marketer of laptop B, for example, could apply the following strategies to stimulate greater interest in brand B: • Redesign the laptop. This technique is called real repositioning. • Alter beliefs about the brand. Attempting to alter beliefs about the brand is called psychological repositioning. • Alter beliefs about competitors’ brands. This strategy, called competitive depositioning, makes sense when buyers mistakenly believe a competitor’s brand is higher quality than it actually is. • Alter the importance weights. The marketer could try to persuade buyers to attach more importance to the attributes in which the brand excels. • Call attention to neglected attributes. The marketer could draw buyers’ attention to neglected attributes, such as styling or processing speed. • Shift the buyer’s ideals. The marketer could try to persuade buyers to change their ideal levels for one or more attributes.62 PurChase DeCIsIon In the evaluation stage, the consumer forms preferences among the brands in the choice set and may also form an intention to buy the most preferred brand. In executing a purchase intention, the consumer may make as many as five subdecisions: brand (brand A), dealer (dealer 2), quantity (one computer), timing (weekend), and payment method (credit card). noncompensaToRy models of consumeR choice The expectancy-value model is a compensatory model, in that perceived good things about a product can help to overcome perceived bad things. But consumers often take “mental shortcuts” called heuristics or rules of thumb in the decision process. With noncompensatory models of consumer choice, positive and negative attribute considerations don’t necessarily net out. Evaluating attributes in isolation makes decision making easier for a consumer, but it also increases the likelihood that she would have made a different choice if she had deliberated in greater detail. We highlight three choice heuristics here.63 Table 6.3 A Consumer’s Brand Beliefs about Laptop Computers Laptop Computer Attribute Memory Capacity Graphics Capability Size and Weight Price A 8 9 6 9 B 7 7 7 7 C 10 4 3 2 D 5 3 8 5 Note: Each attribute is rated from 0 to 10, where 10 represents the highest level on that attribute. Price, however, is indexed in a reverse manner, with 10 representing the lowest price, because a consumer prefers a low price to a high price. AnAlyzing ConsumeR mARkeTs | chapter 6 177 1. Using the conjunctive heuristic, the consumer sets a minimum acceptable cutoff level for each attribute and chooses the first alternative that meets the minimum standard for all attributes. For example, if Linda decided all attributes had to rate at least 5, she would choose laptop B. 2. With the lexicographic heuristic, the consumer chooses the best brand on the basis of its perceived most im- portant attribute. With this decision rule, Linda would choose laptop C. 3. Using the elimination-by-aspects heuristic, the consumer compares brands on an attribute selected probabilistically—where the probability of choosing an attribute is positively related to its importance—and eliminates brands that do not meet minimum acceptable cutoffs. Our brand or product knowledge, the number and similarity of brand choices and time pressures present, and the so- cial context (such as the need for justification to a peer or boss) all may affect whether and how we use choice heuristics. Consumers don't necessarily use only one type of choice rule. For example, they might use a noncompensatory decision rule such as the conjunctive heuristic to reduce the number of brand choices to a more manageable num- ber and then evaluate the remaining brands. One reason for the runaway success of the Intel Inside campaign in the 1990s was that it made the brand the first cutoff for many consumers—they would buy only a personal computer that had an Intel microprocessor. Leading personal computer makers at the time, such as IBM, Dell, and Gateway, had no choice but to support Intel's marketing efforts. A number of factors will determine the manner in which consumers form evaluations and make choices. University of Chicago professors Richard Thaler and Cass Sunstein show how marketers can influence consumer decision making through what they call the choice architecture—the environment in which decisions are struc- tured and buying choices are made. According to these researchers, in the right environment, consumers can be given a "nudge" via some small feature in the environment that attracts attention and alters behavior. They maintain Nabisco is employing a smart choice architecture by offering 100-calorie snack packs, which have solid profit margins, while nudging consumers to make healthier choices.64 inTeRVeninG facToRs Even if consumers form brand evaluations, two general factors can intervene between the purchase intention and the purchase decision (see Figure 6.6). The first factor is the attitudes of others. The influence of another person's attitude depends on two things: (1) the intensity of the other person's negative attitude toward our preferred alternative and (2) our motivation to comply with the other person's wishes.65 The more intense the other person's negativism and the closer he or she is to us, the more we will adjust our purchase intention. The converse is also true. Related to the attitudes of others is the role played by infomediaries' evaluations: Consumer Reports, which provides unbiased expert reviews of all types of products and services; J. D. Power, which provides consumer-based ratings of cars, financial services, and travel products and ser- vices; professional movie, book, and music reviewers; customer reviews of books and music on such sites as Amazon.com; and the increasing number of chat rooms, bulletin boards, blogs, and other online sites like Angie's List where people discuss products, services, and companies.66 Consumers are undoubtedly influenced by these external evaluations, as evidenced by the run- away success of the movie Ted.67 Ted With a modest production budget of $50 million, the R-rated comedy Ted became a summer blockbuster in 2012, eventually grossing more than a staggering $530 million worldwide, thanks to favor- able reviews by critics and moviegoers and a carefully constructed online marketing campaign. Edgy videos and a Twitter feed with raunchy advice from Ted, the often-crude teddy bear star, created much online buzz. Fans of the movie's Facebook page approached 3 million, Twitter followers reached 400,000, and a "Talking Ted" iPhone app was downloaded 3.5 million times. Universal Pictures' marketing campaign also included several different theater trailers to attract different types of audiences. Social media targeted fans of the Family Guy television show, whose creator, Seth McFarlane, directed Ted and provided the voice of the title character. After the first trailer went online, the studio picked up much online chatter with a song, "Thunder Buddies," that the other star of the movie, Mark Wahlberg, sang to Ted while in bed. To capitalize on the buzz, the studio put out a remixed version of the song on the movie's Web site, e- cards with lyrics on Facebook, Thunder Buddy pajamas from CafePress.com, and a 30-second video clip of the song. Evaluation of alternatives Purchase intention Purchase decision Attitudes of others Unanticipated situational factors | Fig. 6.6 | Steps between Evaluation of Alternatives and a Purchase Decision 178 PART 3 | ConneCTing WiTh CusTomeRs The second factor is unanticipated situational factors that may erupt to change the purchase intention. Linda might lose her job before she purchases a laptop, some other purchase might become more urgent, or a store salesperson may turn her off. As Chapter 15 discusses, much marketing occurs at the point of purchase: online or in the store. Preferences and even purchase intentions are not completely reliable predictors of purchase behavior. A con- sumer's decision to modify, postpone, or avoid a purchase decision is heavily influenced by one or more types of perceived risk:68 1. Functional risk—The product does not perform to expectations. 2. Physical risk—The product poses a threat to the physical well-being or health of the user or others. 3. Financial risk—The product is not worth the price paid. 4. Social risk—The product results in embarrassment in front of others. 5. Psychological risk—The product affects the mental well-being of the user. 6. Time risk—The failure of the product results in an opportunity cost of finding another satisfactory product. The degree of perceived risk varies with the amount of money at stake, the amount of attribute uncertainty, and the level of consumer self-confidence. Consumers develop routines for reducing the uncertainty and negative consequences of risk, such as avoiding decisions, gathering information from friends, and developing preferences for national brand names and warranties. Marketers must understand the factors that provoke a feeling of risk in consumers and provide information and support to reduce it. PostPurChase behavior After the purchase, the consumer might experience dissonance from noticing certain disquieting features or hearing favorable things about other brands and will be alert to information that supports his or her decision. Marketing communications should supply beliefs and evaluations that reinforce the consumer's choice and help him or her feel good about the brand. The marketer's job therefore doesn't end with the purchase. Marketers must monitor postpurchase satisfaction, postpurchase actions, and postpurchase product uses and disposal. posTpuRchase saTisfacTion Satisfaction is a function of the closeness between expectations and the product's perceived performance.69 If performance falls short of expectations, the consumer is disappointed; if it meets expectations, the consumer is satisfied; if it exceeds expectations, the consumer is delighted. These feelings make a difference in whether the customer buys the product again and talks favorably or unfavorably about it to others. The larger the gap between expectations and performance, the greater the dissatisfaction. Here the consumer's coping style comes into play. Some consumers magnify the gap when the product isn't perfect and are highly dis- satisfied; others minimize it and are less dissatisfied. posTpuRchase acTions A satisfied consumer is more likely to purchase the product again and will also tend to say good things about the brand to others. Dissatisfied consumers may abandon or return the product. They may seek information that confirms its high value. They may take public action by complaining to the company, going to a lawyer, or complaining directly to other groups (such as business, private, or government agencies) or to many others online. Private actions include deciding to stop buying the product (exit option) or warning friends (voice option).70 Ted became a summer blockbuster due to strong posi- tive word-of-mouth and a well conceived and executed social media campaign. So ur ce : A S S O C I A T E D P R E S S AnAlyzing ConsumeR mARkeTs | chapter 6 179 Chapter 5 described CRM programs designed to build long-term brand loyalty. Postpurchase communications to buyers have been shown to result in fewer product returns and order cancellations. Computer companies, for example, can send a letter to new owners congratulating them on having selected a fine new tablet computer. They can place ads showing satisfied brand owners. They can solicit customer suggestions for improvements and list the location of avail- able services. They can write intelligible instruction booklets. They can send owners e-mail updates describing new tablet applications. In addition, they can provide good channels for speedy redress of customer grievances. posTpuRchase uses and disposal Marketers should also monitor how buyers use and dispose of the product (Figure 6.7). A key driver of sales frequency is product consumption rate—the more quickly buyers consume a product, the sooner they may be back in the market to repurchase it. Consumers may fail to replace some products soon enough because they overestimate product life.71 One strat- egy to speed replacement is to tie the act of replacing the product to a certain holiday, event, or time of year (such as promoting changing the batteries in smoke detectors when Daylight Savings ends). Another strategy is to provide consumers with better information about either (1) the time they first used the product or need to replace it or (2) its current level of performance. Batteries have built-in gauges that show how much power they have left; razors have color in their lubricating strips to indicate when blades may be worn; and so on. Perhaps the simplest way to increase usage is to learn when actual usage is lower than recommended and persuade customers that more regular usage has benefits, overcoming potential hurdles. If consumers throw the product away, the marketer needs to know how they dispose of it, especially if—like bat- teries, beverage containers, electronic equipment, and disposable diapers—it can damage the environment. There also may be product opportunities in disposed products: Air Salvage International is the largest plane dismantler in Europe and a major player in the booming secondhand market for aircraft parts, which totaled $2.5 billion from 2009 to 2011; vintage clothing shops, such as Savers, resell 2.5 billion pounds of used clothing annually; Diamond Safety buys finely ground used tires and then makes and sells playground covers and athletic fields.72 Product Get rid of it temporarily Get rid of it permanently Keep it Rent it To be (re)sold To be used Direct to consumer Through middleman To middleman Trade it Give it away Sell it Throw it away Lend it Use it to serve original purpose Convert it to serve a new purpose Store it | Fig. 6.7 | How Customers Use or Dispose of Products Source: Jacob Jacoby, et al., "What about Disposition?," Journal of Marketing (July 1977), p. 23. Reprinted with permission from the Journal of Marketing, published by the American Marketing Association. Air Salvage International is a market leader in the booming business of selling used aircraft parts. So ur ce : © J im W es t / A la m y 180 PART 3 | ConneCTing WiTh CusTomeRs MoDeratinG eFFeCts on ConsuMeR DeCIsIon MakInG The path by which a consumer moves through the decision-making stages depends on several factors, including the level of involvement and extent of variety seeking. low-inVOlVemenT cOnsumeR decisiOn makinG The expectancy-value model assumes a high level of consumer involvement, or engagement and active processing the consumer undertakes in responding to a marketing stimulus. Richard Petty and John Cacioppo's elaboration likelihood model, an influential model of attitude formation and change, describes how consumers make evaluations in both low- and high-involvement circumstances.73 There are two means of persuasion in their model: the central route, in which attitude formation or change stimulates much thought and is based on the consumer's diligent, rational consideration of the most important product informa- tion; and the peripheral route, in which attitude formation or change provokes much less thought and results from the consumer's association of a brand with either positive or negative peripheral cues. Peripheral cues for consum- ers include a celebrity endorsement, a credible source, or any object that generates positive feelings. Consumers follow the central route only if they possess sufficient motivation, ability, and opportunity. In other words, they must want to evaluate a brand in detail, have the necessary brand and product or service knowledge in memory, and have sufficient time and the proper setting. If any of those factors is lacking, consumers tend to follow the peripheral route and consider less central, more extrinsic factors in their decisions. We buy many products under conditions of low involvement and without significant brand differences. Consider salt. If consumers keep reaching for the same brand in this category, it may be out of habit, not strong brand loyalty. Evidence suggests we have low involvement with most low-cost, frequently purchased products. Marketers use four techniques to try to convert a low-involvement product into one of higher involvement. First, they can link the product to an engaging issue, as when Crest linked its toothpaste to cavity prevention. Second, they can link the product to a personal situation—for example, fruit juice makers began to include vitamins such as calcium to fortify their drinks. Third, they might design advertising to trigger strong emotions related to personal values or ego defense, as when cereal makers began to advertise to adults the heart-healthy nature of cereals and the importance of living a long time to enjoy family life. Fourth, they might add an important feature—for example, when GE lightbulbs introduced "Soft White" versions. These strategies at best raise consumer involvement from a low to a moderate level; they do not necessarily propel the consumer into highly involved buying behavior. If consumers will have low involvement with a purchase decision regardless of what the marketer can do, they are likely to follow the peripheral route. Marketers must give consumers one or more positive cues to justify their brand choice, such as frequent ad repetition, visible sponsorships, and vigorous PR to enhance brand familiarity. Other peripheral cues that can tip the balance in favor of the brand include a beloved celebrity endorser, attractive packaging, and an appealing promotion. VaRieTy-seekinG buyinG behaVioR Some buying situations are characterized by low involvement but significant brand differences. Here consumers often do a lot of brand switching. Think about cookies. The consumer has some beliefs about cookies, chooses a brand without much evaluation, and evaluates the product during consumption. Next time, the consumer may reach for another brand out of a desire for a different taste. Brand switching occurs for the sake of variety rather than from dissatisfaction. The market leader and the minor brands in this product category have different marketing strategies. The mar- ket leader will try to encourage habitual buying behavior by dominating the shelf space with a variety of related product versions, avoiding out-of-stock conditions, and sponsoring frequent reminder advertising. Challenger firms will encourage variety seeking by offering lower prices, deals, coupons, free samples, and advertising that tries to break the consumer's purchase and consumption cycle and presents reasons for trying something new. Behavioral Decision Theory and Behavioral Economics As you might guess from low-involvement decision making and variety seeking, consumers don't always process information or make decisions in a deliberate, rational manner. One of the most active academic research areas in marketing over the past three decades has been behavioral decision theory (BDT). Behavioral decision theorists have identified many situations in which consumers make seemingly irrational choices. Table 6.4 summarizes some provocative findings from this research.74 What all these and other studies reinforce is that consumer behavior is very constructive and the context of decisions really matters. Understanding how these effects show up in the marketplace can be crucial for marketers. AnAlyzing ConsumeR mARkeTs | chapter 6 181 The work of these and other academics has also challenged predictions from economic theory and assumptions about rationality, leading to the emergence of the field of behavioral economics.75 Here we review some of the is- sues in three broad areas: decision heuristics, framing, and other contextual effects. DeCIsIon heurIstICs Above we reviewed some common heuristics that occur with non- compensatory decision making. Other heu- ristics similarly come into play in everyday decision making when consumers forecast the likelihood of future outcomes or events.76 1. The availability heuristic—Consumers base their predictions on the quickness and ease with which a par- ticular example of an outcome comes to mind. If an example comes to mind too easily, consumers might over- estimate the likelihood of its happening. For example, a recent product failure may lead consumers to inflate the likelihood of a future product failure and make them more inclined to purchase a product warranty. 2. The representativeness heuristic—Consumers base their predictions on how representative or similar the outcome is to other examples. One reason package appearances may be so similar for different brands in the Table 6.4 Selected Behavioral Decision Theory Findings • Consumers are more likely to choose an alternative (a home bread maker) after a relatively inferior option (a slightly better but significantly more expensive home bread maker) is added to the available choice set. • Consumers are more likely to choose an alternative that appears to be a compromise in the particular choice set under consideration, even if it is not the best alternative on any one dimension. • The choices consumers make influence their assessment of their own tastes and preferences. • Getting people to focus their attention more on one of two considered alternatives tends to enhance the perceived attractiveness and choice probability of that alternative. • The way consumers compare products that vary in price and perceived quality (by features or brand name) and the way those products are displayed in the store (by brand or by model type) both affect their willingness to pay more for additional features or a better-known brand. • Consumers who think about the possibility that their purchase decisions will turn out to be wrong are more likely to choose better-known brands. • Consumers for whom possible feelings of regret about missing an opportunity have been made more relevant are more likely to choose a product currently on sale than wait for a better sale or buy a higher-priced item. • Consumers' choices are often influenced by subtle (and theoretically inconsequential) changes in the way alterna- tives are described. • Consumers who make purchases for later consumption appear to make systematic errors in predicting their future preferences. • Consumers' predictions of their future tastes are not accurate—they do not really know how they will feel after con- suming the same flavor of yogurt or ice cream several times. • Consumers often overestimate the duration of their overall emotional reactions to future events (moves, financial windfalls, outcomes of sporting events). • Consumers often overestimate their future consumption, especially if there is limited availability. • In anticipating future consumption opportunities, consumers often assume they will want or need more variety than they actually do. • Consumers are less likely to choose alternatives with product features or promotional premiums that have little or no value, even when these features and premiums are optional (like the opportunity to purchase a collector's plate) and do not reduce the actual value of the product in any way. • Consumers are less likely to choose products selected by others for reasons they find irrelevant, even when these other reasons do not suggest anything positive or negative about the product's values. • Consumers' interpretations and evaluations of past experiences are greatly influenced by the ending and trend of events. A positive event at the end of a service experience can color later reflections and evaluations of the experience as a whole. • When faced with a simple but important decision, consumers can actually make things more complicated than they should. 182 PART 3 | ConneCTing WiTh CusTomeRs same product category is that marketers want their products to be seen as representative of the category as a whole. 3. The anchoring and adjustment heuristic—Consumers arrive at an initial judgment and then adjust it— sometimes only reluctantly—based on additional information. For services marketers, a strong first impres- sion is critical to establishing a favorable anchor so subsequent experiences will be interpreted in a more favorable light. Note that marketing managers also may use heuristics and be subject to biases in their own decision making. FraMinG Decision framing is the manner in which choices are presented to and seen by a decision maker. A $200 cell phone may not seem that expensive in the context of a set of $400 phones but may seem very expensive if other phones cost $50. Framing effects are pervasive and can be powerful.77 We find framing effects in comparative advertising, where a brand can put its best foot forward by compar- ing itself to another brand with inferior features; in pricing where unit prices can make the product seem less expensive ("only pennies a day"); in product information where larger units can seem more desirable (a 24-month warranty versus a two-year warranty); and with new products, where consumers can better understand a new product's functions and features by seeing how it compares with existing products.78 Marketers can be very clever in framing decisions. To help promote its environmentally friendly cars, Volkswagen Sweden incorporated a giant working piano keyboard into the steps next to the exit escalator of a Stockholm subway station. Stair traffic rose 66 percent as a result, a fact VW cleverly captured in a YouTube video seen more than 20 million times.79 menTal accounTinG Researchers have found that consumers use a form of framing called "mental accounting" when they handle their money.80 Mental accounting describes the way consumers code, categorize, and evaluate financial outcomes of choices. Formally, it is "the tendency to categorize funds or items of value even though there is no logical basis for the categorization, e.g., individuals often segregate their savings into separate accounts to meet different goals even though funds from any of the accounts can be applied to any of the goals."81 Consider the following two scenarios: 1. You spend $50 to buy a ticket for a concert.82 As you arrive at the show, you realize you've lost your ticket. You decide to buy a replacement. 2. You decide to buy a ticket to a concert at the door. As you arrive at the show, you realize somehow you lost $50 along the way. You decide to buy the ticket anyway. Which one are you more likely to do? Most people choose scenario 2. Although you lost the same amount in each case—$50—in the first case you may have mentally allocated $50 for going to a concert. Buying another ticket would exceed your mental concert budget. In the second case, the money you lost did not belong to any account, so you had not yet exceeded your mental concert budget. Mental accounting has many applications to marketing.83 According to the University of Chicago's Richard Thaler, it is based on a set of core principles: In a clever promotion by VW to emphasize its environmental friendliness, more people used stairs when they were made into a piano keyboard coming out of a Stockholm subway station. So ur ce : L i Z h ng /X in hu a/ Ph ot os ho t/ N ew sc om AnAlyzing ConsumeR mARkeTs | chapter 6 183 1. Consumers tend to segregate gains. When a seller has a product with more than one positive dimension, it's desirable to have the consumer evaluate each dimension separately. Listing multiple benefits of a large indus- trial product, for example, can make the sum of the parts seem greater than the whole. 2. Consumers tend to integrate losses. Marketers have a distinct advantage in selling something if its cost can be added to another large purchase. House buyers are more inclined to view additional expenditures favorably given the already high price of buying a house. 3. Consumers tend to integrate smaller losses with larger gains. The "cancellation" principle might explain why withholding taxes from monthly paychecks is less painful than making large, lump-sum tax payments—the smaller withholdings are more likely to be overshadowed by the larger pay amount. 4. Consumers tend to segregate small gains from large losses. The "silver lining" principle might explain the popularity of rebates on big-ticket purchases such as cars. The principles of mental accounting are derived in part from prospect theory. Prospect theory maintains that consumers frame their decision alternatives in terms of gains and losses according to a value function. Consumers are generally loss- averse. They tend to overweight very low probabilities and underweight very high probabilities. 4. The typical buying process consists of the following sequence of events: problem recognition, information search, evaluation of alternatives, purchase decision, and postpurchase behavior. The marketers' job is to understand the behavior at each stage. 5. Consumers will not necessarily go through the buying process in an orderly fashion and make skip and reverse stages and alternate between going online and offline. 6. The attitudes of others, unanticipated situational factors, and perceived risk may all affect the decision to buy, as will consumers' levels of postpurchase product satisfac- tion, use and disposal, and the company's actions. 7. Consumers are constructive decision makers and sub- ject to many contextual influences. They often exhibit low involvement in their decisions, using many heuris- tics as a result. Summary 1. Consumer behavior is influenced by three factors: cul- tural (culture, subculture, and social class), social (ref- erence groups, family, and social roles and statuses), and personal (age, stage in the life cycle, occupation, economic circumstances, lifestyle, personality, and self- concept). Research into these factors can provide clues to reach and serve consumers more effectively. 2. Four main psychological processes that affect consum- er behavior are motivation, perception, learning, and memory. 3. To understand how consumers actually make buying decisions, marketers must identify who makes and has input into the buying decision; people can be initiators, influencers, deciders, buyers, or users. Different mar- keting campaigns might be targeted to each type of person. MyMarketingLab Go to mymktlab.com to complete the problems marked with this icon as well as for additional auto-graded and assisted-graded writing questions. Applications Marketing Debate Is Target Marketing Ever Bad? As marketers increasingly tailor marketing programs to target market segments, some critics have denounced these efforts as exploitive. They see the preponderance of billboards advertising cigarettes and alcohol in low-income urban areas as taking advantage of a vulnerable market segment. Critics can be especially harsh in evaluating mar- keting programs that target African Americans and other mi- nority groups, claiming they often employ stereotypes and inappropriate depictions. Others counter that targeting and 184 PART 3 | ConneCTing WiTh CusTomeRs positioning is critical to marketing and that these marketing programs are an attempt to be relevant to a certain con- sumer group. Take a position: Targeting minorities is exploitive ver- sus Targeting minorities is a sound business practice. Marketing Discussion What Are Your Mental Accounts? What mental accounts do you have in your mind about purchasing products or services? Do you have any rules you employ in spending money? Are they different from what other people do? Do you follow Thaler's four principles in reacting to gains and losses? Aladdin (1992), The Lion King (1994), Toy Story (with Pixar, 1995), and Mulan (1998). In addition, the company thought of creative new ways to target its core family- oriented consumers as well as expand into new areas to reach an older audience. It launched the Disney Channel, Touchstone Pictures, and Touchstone Television. Disney featured classic films on The Disney Sunday Night Movie and sold its classic films on video at extremely low prices, reaching a whole new generation of children. It tapped into publishing, international theme parks, and theatrical productions that helped reach a variety of audi- ences around the world. Today, Disney consists of five business segments: Studio Entertainment, which creates films, recording la- bels, and theatrical performances; Parks and Resorts, which focuses on Disney's 11 theme parks, cruise lines, and other travel-related assets; Consumer Products, which sells all Disney-branded products; Media Networks, which includes Disney's television networks such as ESPN, ABC, and the Disney Channel; and Interactive. Disney's greatest challenge today is keeping a 90-year-old brand relevant and current with its core au- dience while staying true to its heritage and core brand values. Disney's CEO Bob Iger explained, "As a brand that people seek out and trust, it opens doors to new platforms and markets, and hence to new consumers. When you deal with a company that has a great legacy, you deal with decisions and conflicts that arise from the clash of heritage versus innovation versus relevance. I'm a big believer in respect for heritage, but I'm also a big believer in the need to innovate and the need to balance that respect for heritage with a need to be relevant." Internally, to achieve quality and recognition, Disney has focused on the Disney Difference, which stems from one of Walt Disney's most recognizable quotes: "Whatever you do, do it well. Do it so well that when peo- ple see you do it they will want to come back and see you do it again and they will want to bring others and show them how well you do what you do." Disney works hard to connect with its customers on many levels and through every single detail. For ex- ample, at Disney World, "cast members" or employees are trained to be "assertively friendly" and greet visitors by waving big Mickey Mouse hands, hand out maps to adults and stickers to kids, and clean up the park Marketing Excellence >> Disney Few companies have been able to connect with their audience as well as Disney has. From its founding by brothers Walt and Roy Disney in 1923, the Disney brand has always been synonymous with trust, fun, and qual- ity entertainment for the entire family. Walt Disney once stated, "I am interested in entertaining people, in bringing pleasure, particularly laughter, to others, rather than being concerned with 'expressing' myself with obscure creative impressions." The Walt Disney Company has grown into the world- wide phenomenon that today includes theme parks, feature films, television networks, theatre productions, consumer products, and a growing online presence. In its first two decades, however, it was a struggling cartoon studio that introduced the world to Mickey Mouse, who went on to become its most famous character. Few believed in Disney's vision at the time, but the smashing success of cartoons with sound and of the first full-length animated film, Snow White and the Seven Dwarfs, in 1937 led to other animated classics through- out the 1940s, 1950s, and 1960s, including Pinocchio, Bambi, Cinderella, and Peter Pan, live-action films such as Mary Poppins and The Love Bug, and television series like Davy Crockett. When Walt Disney died in 1966, he was considered the best-known person in the world. He had expanded the Disney brand into film, television, consumer products, and Disneyland in southern California, the company's first theme park. After Walt's death, Roy Disney took over as CEO and realized his brother's dream of opening the 24,000-acre Walt Disney World theme park in Florida. Roy died in 1971, and the company stumbled for several years without the leadership of its two founding brothers. It wasn't until the late 1980s that the company reconnected with its audience and restored trust and interest in the Disney brand. It all started with the release of The Little Mermaid, which turned an old fairy tale into a magical animated Broadway-style movie that won two Oscars. Between the late 1980s and 2000, Disney entered an era known as the Disney Renaissance as it released groundbreaking animated films such as Beauty and the Beast (1991), AnAlyzing ConsumeR mARkeTs | chapter 6 185 shows as well as to post news about its products and interviews with Disney's employees, staff, and park of- ficials. Disney's Web site provides insight into its movie trailers, television clips, Broadway shows, and virtual theme park experiences. Disney's marketing campaign in recent years has focused on how it helps make unforgettable family mem- ories. The campaign, "Let the Memories Begin," fea- tures real guests throughout Disney enjoying different rides and magical experiences. Leslie Ferraro, executive vice president of global marketing, Disney Destinations, elaborated, "The inspiration for this effort came from our guests. Each and every day people are making memories at our parks, posting them online and sharing them with friends and family." According to internal studies, Disney estimates that consumers spend 13 billion hours "immersed" with the Disney brand each year. Consumers around the world spend 10 billion hours watching programs on the Disney Channel, 800 million hours at Disney's resorts and theme parks, and 1.2 billion hours watching a Disney movie—at home, in the theater, or on their computer. Today, Disney is the 13th most powerful brand in the world, and its rev- enues topped $45 billion in 2013. Questions 1. What does Disney do best to connect with its core consumers? 2. What are the risks and benefits of expanding the Disney brand in new ways, such as video games or superheroes? Sources: "Company History," Disney.com; "Annual Reports," Disney.com; Richard Siklosc, "The Iger Difference," Fortune, April 11, 2008; Brooks Barnes, "After Mickey's Makeover; Less Mr. Nice Guy," New York Times, November 4, 2009; "World's Most Powerful Brands," Forbes, April 2012; Dorothy Pomerantz, "Five Lessons in Success from Disney's $40 Million CEO," Forbes, January 23, 2013; "Disney Launches Infinity Video Game That Costs More Than an iPad Mini," Daily Mail, January 16, 2013; Carmine Gallo, "Customer Service the Disney Way," Forbes, April 14, 2011; Hugo Martin, "Disney's 2011 Marketing Campaign Centers on Family Memories," LA Times, September 23, 2010; Elena Malydhina, "Disney Parks Campaign Borrows Family Memories," Adweek, September 23, 2010; Disney Annual Report 2013. so diligently that it's difficult to find a piece of garbage anywhere. Every detail matters, right down to the behavior of custodial workers who are trained by Disney's anima- tors to take their simple broom and bucket of water and quietly "paint" a Goofy or Mickey Mouse in water on the pavement. It's a moment of magic for guests that lasts just a minute before it evaporates in the hot sun. Disney's broad range of businesses allows the com- pany to connect with its audience in multiple ways, ef- ficiently and economically. Hannah Montana provides an excellent example. The company took a tween-targeted television show and moved it across several divisions to become a significant franchise for the company, includ- ing millions of CD sales, video games, popular consumer products, box office movies, concerts around the world, and ongoing live performances at international Disneyland resorts in Hong Kong, India, and Russia. Recently, Disney acquired three huge brands: Pixar, Marvel, and LucasFilms. The company has started to leverage these properties, which include the Star Wars brand and superheroes such as Spiderman, Iron Man, and the Hulk, across many of its businesses in order to create sustainable character brands and new growth op- portunities for the company. Perhaps the most anticipated new product of 2013 was the Disney Infinity gaming platform, which crossed all Disney boundaries. Disney Infinity allowed consumers to play with many of the Disney characters at the same time, interacting and working together on different adventures. For example, Andy from Toy Story might join forces with Captain Jack Sparrow from Pirates of the Caribbean and several monsters from Monsters, Inc. to fight villains from outer space. With so many brands, characters, and businesses, Disney uses technology to ensure that a customer's ex- perience is consistent across every platform. The com- pany connects with its consumers in innovative ways through e-mail, blogs, and its Web site. It was one of the first companies to begin regular podcasts of its television a retail titan in home furnishings and a global cultural phe- nomenon, inspiring BusinessWeek to call it a "one-stop sanctuary for coolness" and "the quintessential cult brand." IKEA inspires remarkable levels of interest and devo- tion from its customers. Each year more than 650 million visitors walk through its stores all over the world. Most need to drive 50 miles round-trip but happily make the effort in order to experience IKEA's unique value proposi- tion: leading-edge design and functional home furnish- ings at extremely low prices. Marketing Excellence >> IKEA IKEA was founded in 1943 by a 17-year-old Swede named Ingvar Kamprad who sold pens, Christmas cards, and seeds out of a shed on his family's farm. The name IKEA was derived from Kamprad's initials (IK) and the first letters of the Elmtaryd farm and the village of Agunnaryd where he grew up (EA). Over the years, the company grew into 186 PART 3 | ConneCTing WiTh CusTomeRs Year of the Rooster, IKEA stocked 250,000 plastic place- mats with rooster themes, which quickly sold out. When employees realized U.S. shoppers were buying vases as drinking glasses because they considered IKEA's regular glasses too small, the company developed larger glasses for the U.S. market. After IKEA managers vis- ited European and U.S. consumers in their homes, they learned that Europeans generally hang their clothes, whereas U.S. shoppers prefer to store them folded. As a result, IKEA designed wardrobes for the U.S. market with deeper drawers. Showrooms in each country or region vary as well. For example, managers learned that many U.S. con- sumers thought IKEA sold only European-size beds. Beds are very important to U.S. consumers, so IKEA quickly changed its U.S. showrooms to feature king beds and a wide range of styles. After visiting Hispanic households in California, IKEA added more seating and dining space to its California stores, as well as brighter color palettes and more picture frames on the show- room walls. In China, IKEA set up its showrooms in small spaces to accurately reflect the small size of apartments in that country. As the company expands globally, it is learning that attitudes towards its core DIY (do it yourself) delivery and assembly business model vary. In China, for ex- ample, consumers do not want to assemble products themselves and will pay a significant amount for home delivery and assembly. As a result, IKEA has added these services, and sales in Asia have taken off. The company plans to implement the same strategy in India, where DIY is also less common. IKEA is known for its quirky marketing campaigns, which help generate excitement and awareness of its stores and brand. It ran a campaign inviting customers to be the "Ambassador of Kul" (Swedish for "fun"), but in order to collect the prize, the contestants had to live in an IKEA store for three full days before it opened, which they happily did. Thousands of people will line up for a chance to win prizes and IKEA furniture. In Sweden, IKEA launched a Facebook page for the manager of a new store. Anyone who could tag his or her name to an IKEA product on the profile page won that item. The promotion generated thousands of tags. IKEA has evolved into the largest furniture retailer in the world, with approximately 350 stores in 43 countries and revenues topping €27.9 billion, or $36 billion, in 2013. The majority of sales still come from Europe, but the company has aggressive plans to expand the $11 bil- lion brand further into Asia, India, and the United States. IKEA's Scandinavian-designed products are well made and appeal to the masses. To stay relevant and fashionable, the company replaces approximately one- third of its product lines each year. Most have Swedish names, such as HEKTAR lamps, BILLY bookcases, and LACK side tables. Kamprad, who was dyslexic, believed it was easier to remember product names rather than codes or numbers. Besides featuring fashionable and good-quality prod- ucts, IKEA stands out in the industry because of its bar- gain prices. The company's vision is and always has been "to create a better everyday life for the many people." As Kamprad said, "People have very thin wallets. We should take care of their interests." A high percentage of its cus- tomers are college students and families with children. IKEA continuously seeks out new ways to run its businesses more efficiently and pass those cost savings on to the customer. In fact, it reduces prices across its products by 1 percent to 3 percent annually. How can it do so? For starters, IKEA engages the consumer on many levels, including having the customer do all the shopping, shipping, and assembly. IKEA's floor plan is designed in a winding, one- way format featuring different inspirational room settings, so consumers experience the entire store. Next, they can grab a shopping cart, pay for the items, visit the warehouse, and pick up their purchases in flat boxes. Consumers load the items in their car, take them home, and completely assemble the products themselves. This strategy makes storage and transportation easier and cheaper for the store. IKEA has also implemented several company-wide strategies to keep operational costs low. The company buys in bulk, controls the supply chain, uses lighter pack- aging materials, and saves on electricity through solar panels, low-wattage light bulbs, and energy from its own wind farms in six different countries. Its stores are located a good distance from most city centers, which helps keep land costs down and taxes low. When IKEA develops new products, its designers and product developers start with a low price tag first and then work with one of their 1,350 suppliers around the world to develop the product within that price range. Designs are efficient, and waste is kept to a minimum. Most stores resemble a large box with few windows and doors and are painted bright yellow and blue—Sweden's national colors. Many of IKEA's products are sold uniformly through- out the world, but the company also caters to local and regional tastes. For example, stores in China stock specific items for each New Year. During the Chinese AnAlyzing ConsumeR mARkeTs | chapter 6 187 Sources: Kerry Capell, "IKEA: How the Swedish Retailer Became a Global Cult Brand," BusinessWeek, November 14, 2005, p. 96; "Need a Home to Go with That Sofa?," BusinessWeek, November 14, 2005, p. 106; Ellen Ruppel Shell, "Buy to Last," Atlantic, July/August 2009; Jon Henley, "Do You Speak IKEA?," Guardian, February 4, 2008; "Innovative Retailers: IKEA," Retailinsider.com/PCMS, March 29, 2012; Jenna Goudreau, "How IKEA Leveraged the Art of Listening to Global Dominance," Forbes, January 30, 2013; IKEA, www.ikea.com. Questions 1. What are some of the things IKEA is doing well to reach consumers in different markets? What else could it be doing? 2. IKEA has essentially changed the way people shop for furniture. Discuss the pros and cons of this strategy, especially as the company plans to continue to ex- pand in places like Asia and India. 188 In This Chapter, We Will Address the Following Questions 1. What is organizational buying? (p. 189) 2. What buying situations do business buyers face? (p. 193) 3. Who participates in the business-to-business buying process? (p. 193) 4. How do business buyers make their decisions? (p. 198) 5. In what ways can business-to-business companies develop effective marketing programs? (p. 204) 6. How can companies build strong loyalty relationships with business customers? (p. 208) 7. How do institutional buyers and government agencies do their buying? (p. 211) MyMarketingLab™ Improve Your Grade! Over 10 million students improved their results using the Pearson MyLabs. Visit mymktlab.com for simulations, tutorials, and end-of-chapter problems. CEO John Chambers has helped transform Cisco to become an exemplary customer-focused organization. Source: ASSOCIATED PRESS 189 Some of the world's most valuable brands belong to business marketers: ABB, Caterpillar, DuPont, FedEx, GE, Hewlett-Packard, IBM, Intel, and Siemens, to name a few. Many principles of basic marketing also apply to business market- ers. They need to embrace holistic marketing principles, such as building strong loyalty relationships with their customers, just like any marketer. But they also face some unique consid- erations in selling to other businesses. In this chapter, we will highlight some of the crucial similarities and differences for marketing in business markets.3 Business organizations do not only sell; they also buy vast quantities of raw materials, manufactured components, plant and equipment, supplies, and business services. According to the Census Bureau, there were roughly 7.4 million businesses with paid employees in 2010 in the United States alone.1 To create and capture value, sellers such as Cisco must understand these organizations' needs, resources, policies, and buying procedures.2 Analyzing Business Markets 7 At the height of the dot-com boom, Cisco Systems was briefly the most valuable company in the world, with a valuation of $500 billion. Since those heady days, Cisco has faced a number of challenges and obstacles to its market leadership but has taken a series of steps to try to stay ahead. The company prides itself on staying close to its customers and sees its core competency as helping them get through big transitions by breaking down their corporate silos. Long-time CEO John Chambers cites compact and efficient blade servers as a good example of how Cisco helps companies form a common technological vision, noting that Cisco's is the only computing technology that can handle data, voice, and video. As a technology company, Cisco is constantly reinventing itself to reflect shifts in the marketplace, whether by tapping into trends to enable voice and video over the Internet or by becoming a major player in cloud computing. Acquisitions play a key role, some notable ones being the $6.9 bil- lion purchase of set-top box maker Scientific Atlanta in 2005 and the $5 billion purchase of video software solutions provider NDS in 2012. Cisco knows that as many as a third of its acquitions will fail, as was the case when it bought Pure Digitial, maker of the Flip video camera, for $600 million in 2009. Cisco does spend $6 billion annually on research and development, and it generates 55 percent of its revenue and 70 percent of its growth from overseas. At the height of the dot-com boom, Cisco Systems was briefly the most valuable company in the world, prides itself on staying close to its customers and sees its core competency as What is Organizational Buying? Frederick E. Webster Jr. and Yoram Wind define organizational buying as the decision-making process by which formal organizations establish the need for purchased products and services and identify, evaluate, and choose among alternative brands and suppliers.4 The BusIness MarkeT versus The ConsuMer MarkeT The business market consists of all the organizations that acquire goods and services used in the production of other products or services that are sold, rented, or supplied to others. Any firm that supplies components for products is in the business-to-business marketplace. Some of the major industries making up the business market are aerospace; agriculture, forestry, and fisheries; chemical; computer; construction; defense; energy; mining; manufacturing; construction; transportation; communication; public utilities; banking, finance, and insurance; distribution; and services. 190 PART 3 | ConneCTing WiTh CusTomeRs More dollars and items change hands in sales to business buyers than to consumers. Consider the process of producing and selling a simple pair of shoes.5 A broad spectrum of materials and material combinations are used today in shoe manufacturing. Leathers, synthetics, rubber and textile materials are counted among the basic upper materials. Each ma- terial has its own specific character and they differ not only in their appearance but also in their physical properties, their service life and treatment needs. The choice of shoe material significantly influences the life of the footwear, and in many cases dictates its use. For leather shoes, hide dealers must sell hides to tanners, who sell leather to shoe manufacturers, who sell shoes to wholesalers, who sell shoes to retailers, who finally sell them to consumers. Each party in the supply chain also buys many other goods and services to support its operations. Given the highly competitive nature of business-to-business markets, the biggest enemy to marketers here is commoditization.6 Commoditization eats away margins and weakens customer loyalty. It can be overcome only if target customers are convinced that meaningful differences exist in the marketplace and that the unique benefits of the firm's offerings are worth the added expense. Thus a critical step in business-to-business marketing is to create and communicate relevant differentiation from competitors. Here is how Siemens has improved its marketing to better compete in recent years:7 SieMenS Although mammoth in size, with over $100 billion in revenue and approximately 336,000 employees in 190 countries, German engineering giant Siemens was still not well known in its largest market, the United States, which drew almost $20 billion in revenue. With a goal to establish "who we are, what we are about, and what we look like," the company launched the "Answers" campaign in 2007 to unify its diverse units—which design and manufacture products ranging from trains to diagnostic imaging systems to wind turbines—into one brand identity. Developed by communication agency partner Ogilvy, the campaign was thoroughly integrated across media. Over time, ads became more emotional and human in nature, focusing on how Siemens has solutions that impact customers, society, the environment and the economy. The advertising touched on Siemens' job generation, productivity and work to ensure a sustainable society. Sustainability solutions were reflected in approximately one-third of its revenue. Due to the severe economic recession, there was a strong "buy American" push. The "Siemens Answers" advertising program also helped Siemens reinforce its American credentials. With a focus on the number one Siemens market—the United States—and new emerging markets like China, Siemens began to hit its financial stride again. Business marketers face many of the same challenges as consumer marketers, especially understanding their customers and what they value. The well-respected Institute for the Study of Business Markets (ISBM) notes that the three biggest hurdles for B-to-B marketing are: (1) building stronger interfaces between marketing and sales; (2) building stronger innovation-marketing interfaces; and (3) extracting and leveraging more granular customer and market knowledge. Four additional imperatives cited by ISBM are: (1) demonstrating marketing's contribution to business performance; (2) engaging more deeply with customers and customers' customers; (3) finding the right mix As with many products, shoes are manufactured with a wide variety of different kinds of materials and ingredients. So ur ce : © e du 19 71 /F ot ol ia AnAlyzing Business mARkeTs | chapter 7 191 of centralized versus decentralized marketing activities; and (4) finding and grooming marketing talent and competencies.8 Business marketers contrast sharply with consumer markets in some ways, however. They have: • Fewer, larger buyers. The business marketer normally deals with far fewer and much larger buyers than the consumer marketer does, particularly in such industries as aircraft engines and defense weapons. The fortunes of Goodyear tires, Cummins engines, Delphi control systems, and other automotive part suppliers depend in large part on getting big contracts from just a handful of major automakers. • Close supplier–customer relationships. Because of the smaller customer base and the importance and power of the larger customers, suppliers are frequently expected to customize their offerings to individual business customer needs. On an annual basis, Pittsburgh-based PPG Industries purchases more than $7 billion in materials and services from thousands of suppliers. The company presented seven Excellent Supplier Awards for superior performance in 2011, the criteria for which included product quality, delivery, documentation, innovation, responsiveness, continuous improvement, and participation in the Supplier Added Value Effort (SAVE) program. With its SAVE program, PPG challenges its suppliers of maintenance, repair, and operating (MRO) goods and services to deliver on annual value-added and cost-savings proposals equaling at least 5 percent of their total annual sales to PPG.9 Business buyers also often select suppliers that also buy from them. A paper manufacturer might buy chemicals for its pulp and paper making from a chemical company that in turn buys a considerable amount of paper from the manufacturer. • Professional purchasing. Business goods are often purchased by trained purchasing agents, who must follow their organizations' purchasing policies, constraints, and requirements. Many business buying instruments—for example, requests for quotations, proposals, and purchase contracts—are not typically found in consumer buying. Many professional buyers belong to the Institute for Supply Management (ISM), which seeks to im- prove the profession's effectiveness and status. This means business marketers must provide greater technical data about their product and its competitive advantages. Business-to-business powerhouse Siemens has emphasized its American roots and sustainability accomplishments in its most important U.S. market. So ur ce : © S ie m en s A G 2 01 4 192 PART 3 | ConneCTing WiTh CusTomeRs • Multiple buying influences. More people typically influence business buying decisions. Buying committees that include technical experts and even senior management are common in the purchase of major goods. Business marketers need to send well-trained sales representatives and teams to deal with these equally well- trained buyers. • Multiple sales calls. A study by McGraw-Hill found that it took four to four-and-a-half calls to close an aver- age industrial sale. For capital equipment sales for large projects, it may take many attempts to fund a project, and the sales cycle—between quoting a job and delivering the product—can even take years.10 • Derived demand. The demand for business goods is ultimately derived from the demand for consumer goods. For this reason, the business marketer must closely monitor the buying patterns of end users. Pittsburgh-based Consol Energy's coal and natural gas business largely depends on orders from utilities and steel companies, which, in turn, depend on consumer demand for electricity and for steel-based products such as automobiles, machines, and appliances. Business buyers must also pay close attention to economic factors like the level of production, investment, and consumer spending and the interest rate. Business marketers can do little to stimulate total demand. They can only fight harder to increase or maintain their share of it. • Inelastic demand. The total demand for many business goods and services is inelastic—that is, not much affected by price changes. Shoe manufacturers are not going to buy much more leather if the price of leather falls, nor less if the price rises unless they find satisfactory substitutes. Demand is especially inelastic in the short run because producers cannot make quick changes in production methods. Demand is also inelastic for business goods that represent a small percentage of the item's total cost, such as shoelaces. • Fluctuating demand. The demand for business goods and services tends to be more volatile than the demand for consumer goods and services. A given percentage increase in consumer demand can lead to a much larger percentage increase in the demand for plant and equipment. Demand for plant and equipment is more vola- tile because it reflects the normal year-to-year replacement demand as well as the need to satisfy increased or decreased consumer demand. Economists refer to this as the acceleration effect. Sometimes a rise of only 10 percent in consumer demand can cause as much as a 200 percent rise in business demand for products in the next period; a 10 percent fall in consumer demand may cause a complete collapse in business demand as replacement needs drop considerably. • Geographically concentrated buyers. For years, more than half of U.S. business buyers have been concen- trated in seven states: New York, California, Pennsylvania, Illinois, Ohio, New Jersey, and Michigan. The geographical concentration of producers helps to reduce selling costs. At the same time, business marketers need to monitor regional shifts of certain industries such as the automobile industry, which is no longer con- centrated around Detroit. • Direct purchasing. Business buyers often buy directly from manufacturers rather than through intermediar- ies, especially items that are technically complex or expensive such as servers or aircraft. BuYInG sITuaTIons The business buyer faces many decisions in making a purchase. How many depends on the complexity of the problem being solved, newness of the buying requirement, number of people involved, and time required. Three types of buying situations are the straight rebuy, modified rebuy, and new task.11 Consol Energy's revenue depends indirectly on market demand for electricity and steel- based products. So ur ce : © A da m Z ia ja /S hu tt er st oc k AnAlyzing Business mARkeTs | chapter 7 193 • Straight rebuy. In a straight rebuy, the purchasing department reorders items like office supplies and bulk chemicals on a routine basis and chooses from suppliers on an approved list. The suppliers make an effort to maintain product and service quality and often propose automatic reordering systems to save time. "Out-sup- pliers" attempt to offer something new or exploit dissatisfaction with a current supplier. Their goal is to get a small order and then enlarge their purchase share over time. • Modified rebuy. The buyer in a modified rebuy wants to change product specifications, prices, delivery re- quirements, or other terms. This usually requires additional participants on both sides. The in-suppliers be- come nervous and want to protect the account. The out-suppliers see an opportunity to propose a better offer to gain some business. • New task. A new-task purchaser buys a product or service for the first time (an office building, a new security system). The greater the cost or risk, the larger the number of participants, and the greater their information gathering—the longer the time to a decision.12 The business buyer makes the fewest decisions in the straight rebuy situation and the most in the new-task situ- ation. Over time, new-buy situations become straight rebuys and routine purchase behavior. New-task buying is the marketer's greatest opportunity and challenge. The buying process passes through several stages: awareness, interest, evaluation, trial, and adoption. Mass media can be most important during the initial awareness stage; salespeople often have their greatest impact at the interest stage; and technical sources can be most important during evaluation. Online selling efforts may be useful at all stages. In the new-task situation, the buyer must determine product specifications, price limits, delivery terms and times, service terms, payment terms, order quantities, acceptable suppliers, and the selected supplier. Different participants influence each decision, and the order in which these decisions are made varies. Because of the complicated selling required, many companies use a missionary sales force consisting of their most effective salespeople. The brand promise and the manufacturer's name recognition will be important in establishing trust and persuading the customer to consider change. The marketer also tries to reach as many key participants as possible with information and assistance. Once a customer has been acquired, in-suppliers are continually seeking ways to add value to their market offer to facilitate rebuys. EMC has successfully acquired a series of computer software leaders to reposition the company to manage and protect—not just store—information, helping companies to "accelerate their journey to cloud com- puting" in the process. Where one hardware product once made up 80 percent of its sales, the company now gets about 60 percent of its revenue from software and services.13 Oracle has also made a number of strategic acquisi- tions to expand its offerings.14 OracLe Business-software giant Oracle became an industry leader by offering a range of products and services to satisfy customer needs for enterprise software. Originally known for its flagship database management systems, Oracle spent $30 billion in recent years to buy 56 companies, including $7.4 billion for Sun Microsystems, doubling its revenue to $24 billion and sending its stock soaring in the process. To become a one-stop shop for all kinds of business customers, Oracle now sells everything from server computers and data storage devices to operat- ing systems, databases, and software for running accounting, sales, and supply-chain management. At the same time, the company has launched "Project Fusion" to unify its applications so customers can consolidate solutions to their software needs, as reinforced by their company slogan, "Hardware and Software, Engineered to Work Together." Oracle's market power has sometimes raised both criticism from customers and concerns from government regula- tors. As for the same time, its many long-time customers speak to its track record of product innovation and customer satisfaction. Participants in the Business Buying Process Who buys the trillions of dollars' worth of goods and services needed by business organizations? Purchasing agents are influential in straight-rebuy and modified-rebuy situations, whereas other employees are more influ- ential in new-buy situations. Engineers usually are influential in selecting product components, and purchasing agents dominate in selecting suppliers.15 194 PART 3 | ConneCTing WiTh CusTomeRs The BuYInG CenTer Webster and Wind call the decision-making unit of a buying organization the buying center. It consists of "all those individuals and groups who participate in the purchasing decision-making process, who share some com- mon goals and the risks arising from the decisions."16 The buying center includes all members of the organization who play any of seven roles in the purchase decision process. 1. Initiators—Users or others in the organization who request that something be purchased. 2. Users—Those who will use the product or service. In many cases, the users initiate the buying proposal and help define the product requirements. 3. Influencers—People who influence the buying decision, often by helping define specifications and providing information for evaluating alternatives. Technical people are particularly important influencers. 4. Deciders—People who decide on product requirements or on suppliers. 5. Approvers—People who authorize the proposed actions of deciders or buyers. 6. Buyers—People who have formal authority to select the supplier and arrange the purchase terms. Buyers may help shape product specifications, but they play their major role in selecting vendors and negotiating. In more complex purchases, buyers might include high-level managers. 7. Gatekeepers—People who have the power to prevent sellers or information from reaching members of the buying center. For example, purchasing agents, receptionists, and telephone operators may prevent salesper- sons from contacting users or deciders. Several people can occupy a given role such as user or influencer, and one person may play multiple roles.17 A purchasing manager, for example, is often buyer, influencer, and gatekeeper simultaneously. She can decide which sales reps can call on other people in the organization, what budget and other constraints to place on the purchase, and which firm will actually get the business, even though others (deciders) might select two or more potential vendors that can meet the company's requirements. A buying center typically has five or six members and sometimes dozens. Some may be outside the orga- nization, such as government officials, consultants, technical advisors, and other members of the marketing channel.18 BuYInG CenTer InfluenCes Buying centers usually include participants with differing interests, authority, status, susceptibility to persuasion, and sometimes very different decision criteria. Engineers may want to maximize the performance of the product; production people may want ease of use and reliability of supply; financial staff focus on the economics of the purchase; purchasing may be concerned with operating and replacement costs; union officials may emphasize safety issues. Business buyers also have personal motivations, perceptions, and preferences influenced by their age, income, education, job position, personality, attitudes toward risk, and culture. Some are "keep-it-simple" buyers, or "own- expert," "want-the-best," or "want-everything-done" buyers. Some younger, highly educated buyers are technically proficient and conduct rigorous analyses of competitive proposals before choosing a supplier. Other buyers are "toughies" from the old school who pit competing sellers against one another, and in some companies, the pur- chasing powers-that-be are legendary. Webster cautions that ultimately individuals, not organizations, make purchasing decisions.19 Individuals are motivated by their own needs and perceptions in attempting to maximize the organizational rewards they earn (pay, advancement, recognition, and feelings of achievement). But organizational needs legitimate the buying pro- cess and its outcomes. In other words, according to Webster, businesspeople are not buying "products." They are buying solutions to two problems: the organization's economic and strategic problem and their own personal need for achievement and reward. In this sense, industrial buying decisions are both "rational" and "emotional"—they serve both the organization's and the individual's needs.20 Research by one industrial component manufacturer found that although top executives at its small- and medium-sized customers were comfortable buying from other companies, they appeared to harbor subconscious insecurities about buying the manufacturer's product. Constant changes in technology had left them concerned about internal effects within the company. Recognizing this unease, the manufacturer retooled its selling ap- proach to emphasize more emotional appeals and the way its product line actually enabled the customer's employees to improve their performance, relieving management of the complications and stress of using its components.21 AnAlyzing Business mARkeTs | chapter 7 195 TarGeTInG fIrMs and BuYInG CenTers Successful business-to-business marketing requires that business marketers know which types of companies to fo- cus on in their selling efforts, as well as whom to concentrate on within the buying centers in those organizations. TargeTing Firms As we will discuss in detail in Chapter 9, business marketers may divide the marketplace in many different ways to choose the types of firms to which they will sell. Finding the sectors with the greatest growth prospects, most profitable customers, and most promising opportunities for the firm is crucial, as Timken found out.22 TiMken When Timken, which manufactures bearings and rotaries for companies in a variety of industries, saw its net income and shareholder returns dip compared with competitors', the firm became concerned that it was not investing in the most profitable areas. To identify businesses that operated in financially attractive sectors and would be most likely to value its offerings, it conducted an extensive market study and discovered that some customers generated a lot of business but had little profit potential, while for others the opposite was true. As a result, Timken shifted its attention away from the auto industry and into the heavy processing, aerospace, and defense industries. It also addressed custom- ers that were financially unattractive or minimally attractive. A tractor manufacturer complained that Timken's bearings prices were too high for its midsize tractors. Timken suggested the firm look elsewhere but continued to sell bear- ings at the higher price for the manufacturer's large tractors to the satisfaction of both sides. By adjusting its products, prices, and communications to appeal to the right types of firms, Timken experienced record revenue despite a recession. It's also true, however, that as a slowing economy has put a stranglehold on large corporations' purchasing departments, small and midsize business markets are offering new opportunities for suppliers. See "Marketing Insight: Big Sales to Small Businesses" for more on this important B-to-B market. TargeTing wiThin The Business CenTer Once it has identified the type of businesses on which to focus marketing efforts, the firm must then decide how best to sell to them. Who are the major decision participants? What decisions do they influence, and how deeply? What evaluation criteria do they use? Consider the following example: A company sells nonwoven disposable surgical gowns to hospitals. The hospital staff who participate in the buying decision include the vice president of purchasing, the operating-room administrator, and the surgeons. The vice president of purchasing analyzes whether the hospital should buy disposable or reusable gowns. If disposable, the operating-room administrator compares various competitors' products on absorbency, anti- septic quality, design, and cost and normally buys the brand that meets functional requirements at the lowest cost. Surgeons influence the decision retroactively by reporting their satisfaction with the chosen brand. The business marketer is not likely to know exactly what kind of group dynamics take place during the decision process, though whatever information he or she can obtain about personalities and interpersonal factors is useful. Timken carefully segments business markets and adjusts the marketing programs for its bearings and rotaries to maximally satisfy target segments. So ur ce : P R N E W SW IR E 196 PART 3 | ConneCTing WiTh CusTomeRs Big Sales to Small Businesses In its March 2012 guidelines, the Small Business Administration (SBA) defined small businesses as those with fewer than 500 employees for most mining and manufacturing industries and $7 million in average annual receipts for most nonmanufacturing industries. Some companies, such as grocery and department stores and motor vehicle and electronic appliance dealers, and the guide- lines are constantly being updated to reflect changes in the business environment. The SBA counted approximately 28 million small businesses in the United States in 2013. These provide almost half of all private-sector employment and have generated almost two-thirds of net new private-sector jobs since the 1970s. Those new ventures all need capital equipment, technology, supplies, and services. Look beyond the United States and you find a huge and growing B-to-B market, one that top companies have recognized. IBM launched Express, a line of hardware, software services, and financing, specifically for the small to midsize customers (with fewer than 1,000 employees) that supply 20 percent of its business. As one VP of marketing noted, "In today's world, we see that over 80% of the time a small or medium business makes a technology decision, it starts with a search engine. . . . We have to make sure we show up in their search queries, not just paid or organic search, but we want to drive stimulated search." IBM makes heavy use of social media—including blogs, Facebook, LinkedIn, and Twitter—to drive conversations around top- ics of interest to small and midsize businesses, such as IT security and cloud-based computing. The company is also using events to reach small businesses, such as a series on IT security that attracted more than 10,000 attendees. It has pledged $1 billion in financing to help small and midsize businesses procure certain IBM systems and services. Small and midsize businesses present huge opportunities and huge challenges. The market is large and fragmented by industry, size, and number of years in operation. Small business owners are notably averse to long-range planning and often have an "I'll buy it when I need it" decision-making style. Here are some guidelines for marketing to small businesses: • Don't lump small and midsize businesses together. There's a big gap between $1 million in revenue and $50 million or between a start-up with 10 employees and a more mature business with 100 or more employees. IBM distinguishes its offerings to small and medium-sized businesses on its common Web site for the two. • Do keep it simple. Offer one supplier point of contact for all service problems or one bill for all services and products. AT&T serves millions of small-business customers (with fewer than 100 employees) with services that bundle Internet, local phone, long- distance phone, data management, business networking, Web hosting, and teleconferencing. • Do use the Internet. Hewlett-Packard found that time-strapped small-business decision makers prefer to buy, or at least research, products and services online. So it designed a site for them that pulls visitors through extensive advertising, direct mail, e-mail campaigns, catalogs, and events. • Don't forget about direct contact. Even if a small business owner's first point of contact is via the Internet, you still need to of- fer phone or face time. • Do provide support after the sale. Small businesses want part- ners, not pitchmen. When the DeWitt Company, a 100- employee landscaping products business, purchased a large piece of machinery from Moeller, the company's president paid DeWitt's CEO a personal visit and stayed until the machine was up and running properly. • Do your homework. The realities of small or midsize business man- agement are different from those of a large corporation. Microsoft created a small, fictional executive research firm, Southridge, and baseball-style trading cards of its key decision makers to train its employees to tie sales strategies to small-business realities. Sources: Based on Barnaby J. Feder, "When Goliath Comes Knocking on David's Door," New York Times, May 6, 2003; Jay Greene, "Small Biz: Microsoft's Next Big Thing?," BusinessWeek, April 21, 2003, pp. 72–73; Jennifer Gilbert, "Small but Mighty," Sales & Marketing Management (January 2004), pp. 30–35; Kate Maddox, "Driving Engagement with Small Business," Advertising Age, November 7, 2011; Christine Birkner, "Big Business Think Small," Marketing News, May 15, 2012, pp. 12–16; "IBM Luring SMBs with Expanded Finance Options," Network World, September 12, 2011; www.sba.gov; www.openforum.com; www-304.ibm .com/businesscenter/smb/us/en, all accessed May 20, 2014. marketing insight Small sellers concentrate on reaching the key buying influencers. Larger sellers go for multilevel in-depth sell- ing to reach as many participants as possible. Their salespeople virtually "live with" high-volume customers. Companies must rely more heavily on their communications programs to reach hidden buying influences and keep current customers informed.23 Business marketers must periodically review their assumptions about buying center participants. Traditionally, SAP sold its software products to CIOs at large companies. A shift to focus on selling to individual corporate units lower down the organizational chart raised the percentage of software license sales going to new customers to 40 percent.24 Insights into customers and buying centers are critical. GE's ethnographic research into the plastic-fiber indus- try revealed that the firm wasn't in a commodity business driven by price, as it had assumed. Instead it was in an artisanal industry, with customers who wanted collaboration at the earliest stages of development. GE completely AnAlyzing Business mARkeTs | chapter 7 197 reoriented the way it interacted with companies in the industry as a result. In developing markets, ethnographic research also can be very useful, especially in far-flung rural areas, given that marketers often do not know these consumers as well.25 In developing selling efforts, business marketers can also consider their customers' customers, or end users, if appropriate. Many B-to-B sales are to firms using the products they purchase as components in products they sell to the ultimate consumers. Business marketers can seek out opportunities to interact with their customers' custom- ers and improve their offerings or even their business model. When XSENS, a Dutch supplier of three-dimensional motion-sensor technology, helped solve the problems of one of its customers' customers, it also developed a new operating procedure that improved accuracy of its products by an order of magnitude.26 The Purchasing/Procurement Process In principle, business buyers seek the highest benefit package (economic, technical, service, and social) in rela- tionship to a market offering's costs. The strength of their incentive to purchase will be a function of the differ- ence between perceived benefits and perceived costs.27 Business marketers must therefore ensure that customers fully appreciate how the firm's offerings are different and better. Framing occurs when customers are given a perspective or point of view that allows the seller to "put its best foot forward." It can be as simple as making sure customers recognize all the benefits or cost savings afforded by the firm's offerings or becoming more influential in the customers' thinking about the economics of purchasing, owning, using, and disposing of product offerings. In the past, purchasing departments occupied a low position in the management hierarchy, in spite of of- ten managing more than half the company's costs. Recent competitive pressures have led many companies to upgrade their purchasing departments and elevate administrators to vice presidential rank. These new, more strategically oriented purchasing departments have a mission to seek the best value from fewer and better suppliers. Some multinationals have even elevated purchasing departments to "strategic supply departments" with re- sponsibility for global sourcing and partnering. At Caterpillar, purchasing, inventory control, production schedul- ing, and traffic have been combined into one department. Here are two other companies that have benefited from improving their business buying practices. • Rio Tinto is a world leader in finding, mining, and processing the earth's mineral resources, with a significant presence in North America and Australia. Coordinating with its suppliers was time-consuming, so Rio Tinto embarked on an electronic commerce strategy with one key supplier. Both parties have reaped significant benefits. In many cases, orders are being filled in the suppliers' warehouse within minutes of being transmit- ted, and the supplier can now use a pay-on-receipt program that has shortened Rio Tinto's payment cycle to about 10 days.28 GE learned that its plastic-fiber customers saw themselves more as artisans, completely changing how the company treated those customers. So ur ce : © a yk ut er d/ Fo to lia 198 PART 3 | ConneCTing WiTh CusTomeRs • Medline Industries, the largest privately owned manufacturer and distributor of health care products in the United States, used software to integrate its view of customer activity across online and direct sales channels. The results? The firm enhanced its product margin by 3 percent, improved customer retention by 10 percent, reduced revenue lost to pricing errors by 10 percent, and enhanced the productivity of its sales representatives by 20 percent.29 The upgrading of purchasing means business marketers must upgrade their sales staff to match the higher caliber of today's business buyers. Supplier diversity may not have a price tag, but it is a benefit purchasing departments and business buyers overlook at their own risk. Minority suppliers are the fastest-growing segment of today's business landscape, and CEOs of many of the largest companies see a diverse supplier base as a business imperative. In 2011, McDonald's U.S. restaurant system purchased nearly $6.7 billion in goods and services from minority- and women-owned suppliers, about two-thirds of what the system spends for food, packaging, uniforms, operating supplies, and premiums.30 Stages in the Buying Process We're ready to describe the general stages in the business buying-decision process. Patrick J. Robinson and his associates identified eight stages and called them buyphases.31 The model in Table 7.1 is the buygrid framework. In modified-rebuy or straight-rebuy situations, some stages are compressed or bypassed. For example, the buyer normally has a favorite supplier or a ranked list of suppliers and can skip the search and proposal solicitation stages. Here are some important considerations in each of the eight stages. ProBleM reCoGnITIon The buying process begins when someone in the company recognizes a problem or need that can be met by acquiring a good or service. The recognition can be triggered by internal or external stimuli. The internal stimulus might be a decision to develop a new product that requires new equipment and materials or a machine that breaks down and requires new parts. Or purchased material turns out to be unsatisfactory and the company searches for another supplier or lower prices or better quality. Externally, the buyer may get new ideas at a trade show, see an ad, receive an e-mail, read a blog, or receive a call from a sales representative who offers a better product or a lower price. Business marketers can stimulate problem recognition by direct marketing in many different ways. TaBle 7.1 Buygrid Framework: Major Stages (Buyphases) of the Industrial Buying Process in Relation to Major Buying Situations (Buyclasses) Buyclasses New Task Modified Rebuy Straight Rebuy Buyphases 1. Problem recognition Yes Maybe No 2. General need description Yes Maybe No 3. Product specification Yes Yes Yes 4. Supplier search Yes Maybe No 5. Proposal solicitation Yes Maybe No 6. Supplier selection Yes Maybe No 7. Order-routine specification Yes Maybe No 8. Performance review Yes Yes Yes AnAlyzing Business mARkeTs | chapter 7 199 General need desCrIPTIon and ProduCT sPeCIfICaTIon Next, the buyer determines the needed item's general characteristics and required quantity. For standard items, this is simple. For complex items, the buyer will work with others—engineers, users—to define characteristics such as reliability, durability, or price. Business marketers can help by describing how their products meet or even exceed the buyer's needs. The buying organization now develops the item's technical specifications. Often, the company will assign a product-value-analysis engineering team to the project. Product value analysis (PVA) is an approach to cost reduc- tion that studies whether components can be redesigned or standardized or made by cheaper methods of produc- tion without adversely affecting product performance. The PVA team will identify overdesigned components, for instance, that last longer than the product itself. Tightly written specifications allow the buyer to refuse compo- nents that are too expensive or that fail to meet specified standards. Suppliers can use product value analysis as a tool for positioning themselves to win an account. Whatever the method, it is important to eliminate excessive costs. Mexican cement giant Cemex is famed for "The Cemex Way," which uses high-tech methods to squeeze out inefficiencies.32 suPPlIer searCh The buyer next tries to identify the most appropriate suppliers through trade directories, contacts with other companies, trade advertisements, trade shows, and the Internet. The move to online purchasing has far-reaching implications for suppliers and will change the shape of purchasing for years to come. Companies that purchase online are utilizing electronic marketplaces in several forms: • Catalog sites. Companies can order thousands of items through electronic catalogs, such as W. W. Grainger's, distributed by e-procurement software. • Vertical markets. Companies buying industrial products such as plastics, steel, or chemicals or services such as logistics or media can go to specialized Web sites called e-hubs. Plastics.com allows plastics buyers to search the best prices among thousands of plastics sellers. • "Pure Play" auction company. Ritchie Bros. Auctioneers is the world's largest industrial auctioneer, with 44 auction sites worldwide. It sold $3.8 billion of used and unused equipment at more than 356 unreserved auctions in 2013, including a wide range of heavy equipment, trucks, and other assets for the construction, transportation, agricultural, material handling, oil and gas, mining, forestry, and marine industry sectors. While some people prefer to bid in person at Ritchie Bros. auctions, they can also do so online in real time at rbauction.com—the company's multilingual Web site. In 2013, 50 percent of the bidders at Ritchie Bros. auc- tions bid over the Internet; online bidders purchased $1.4 billion of equipment.33 • Spot (or exchange) markets. On spot electronic markets, prices change by the minute. IntercontinentalExchange (ICE) is the leading electronic energy marketplace and soft commodity exchange with billions in sales. • Private exchanges. Hewlett-Packard, IBM, and Walmart operate private exchanges to link with specially invited groups of suppliers and partners over the Web. • Barter markets. In barter markets, participants offer to trade goods or services. • Buying alliances. Several companies buying the same goods can join together to form purchasing consortia to gain deeper discounts on volume purchases. TopSource is an alliance of firms in the retail and wholesale food-related businesses. Mexican cement giant Cemex is known for its sophisticated ways to reduce costs for its customers. So ur ce : © J us ti n K as e zs ix z / A la m y 200 PART 3 | ConneCTing WiTh CusTomeRs Online business buying offers several advantages: It shaves transaction costs for both buyers and suppliers, reduces time between order and delivery, consolidates purchasing systems, and forges more direct relationships between partners and buyers. On the downside, it may help to erode supplier–buyer loyalty and create potential security problems. e-proCuremenT Web sites are organized around two types of e-hubs: vertical hubs centered on industries (plastics, steel, chemicals, paper) and functional hubs (logistics, media buying, advertising, energy management). In addition to using these Web sites, companies can use e-procurement in other ways: • Set up direct extranet links to major suppliers. A company can set up a direct e-procurement account at Dell or Office Depot, for instance, and its employees can make their purchases this way. • Form buying alliances. A number of major retailers and manufacturers such as Acosta, Ahold, Best Buy, Carrefour, Family Dollar Stores, Lowe's, Safeway, Sears, SUPERVALU, Target, Walgreens, Walmart, and Wegmans Food Markets are part of a data-sharing alliance called 1SYNC. Several auto companies (GM, Ford, Chrysler) formed Covisint for the same reason. Covisint is the leading provider of services that can integrate crucial business information and processes between partners, customers, and suppliers. The company has now also targeted health care to provide similar services. • Set up company buying sites. General Electric formed the Trading Process Network (TPN), where it posts requests for proposals (RFPs), negotiates terms, and places orders. Moving into e-procurement means more than acquiring software; it requires changing purchasing strategy and structure. However, the benefits are many. Aggregating purchasing across multiple departments yields larger, cen- trally negotiated volume discounts, a smaller purchasing staff, and less buying of substandard goods from outside the approved list of suppliers. lead generaTion The supplier's task is to ensure it is considered when customers are—or could be—in the market and searching for a supplier. Marketing must work with sales to define what makes a "sales ready" prospect and cooperate to send the right messages via sales calls, trade shows, online activities, PR, events, direct mail, and referrals. Marketers must find the right balance between the quantity and quality of leads. Too many leads, even of high quality, and the sales force may be overwhelmed and allow promising opportunities to fall through the cracks; too few or low-quality leads and the sales force may become frustrated or demoralized.34 To generate high-quality leads, suppliers need to know about their customers. They can obtain background information from vendors such as Dun & Bradstreet and InfoUSA or information-sharing Web sites such as Jigsaw and LinkedIn.35 Suppliers that qualify may be visited by the buyer's agents, who will examine the suppliers' manufacturing facili- ties and meet their staff. After evaluating each company, the buyer will end up with a short list of qualified suppli- ers. Many professional buyers have forced suppliers to make adjustments to their marketing proposals to increase their likelihood of making the cut. Richie Bros., the world's largest industrial auctioneers, conducts numerous online as well as in-person auctions for its customers. So ur ce : C ou rt es y of R it ch ie B ro s. A uc ti on ee rs . AnAlyzing Business mARkeTs | chapter 7 201 ProPosal solICITaTIon The buyer next invites qualified suppliers to submit written proposals. After evaluating them, the buyer will invite a few suppliers to make formal presentations. Business marketers must be skilled in researching, writing, and presenting proposals as marketing documents that describe value and benefits in customer terms. Oral presentations must inspire confidence and position the company's capabilities and resources so they stand out from the competition. Proposals and selling efforts are often team efforts that leverage the knowledge and expertise of coworkers. Pittsburgh-based Cutler-Hammer, part of Eaton Corp., developed "pods" of salespeople focused on a particular geographic region, industry, or market concentration. suPPlIer seleCTIon Before selecting a supplier, the buying center will specify and rank desired supplier attributes, often using a supplier-evaluation model such as the one in Table 7.2. To develop compelling value propositions, business marketers need to better understand how business buyers arrive at their valuations.36 Researchers have identified eight different customer value assessment (CVA) methods. Companies tended to use the simpler methods, though the more sophisticated ones promise a more accurate pic- ture of CPV (see "Marketing Memo: Developing Compelling Customer Value Propositions"). The choice of attributes and their relative importance vary with the buying situation. Delivery reliability, price, and supplier reputation are important for routine-order products. For procedural-problem products, such as a copying machine, the three most important attributes are technical service, supplier flexibility, and product reli- ability. For political-problem products that stir rivalries in the organization (such as the choice of a computer sys- tem or software platform), the most important attributes are price, supplier reputation, product reliability, service reliability, and supplier flexibility. overComing priCe pressures Despite moves toward strategic sourcing, partnering, and participation in cross-functional teams, buyers still spend a large chunk of their time haggling with suppliers on price. The number of price-oriented buyers can vary by country, depending on customer preferences for different service configurations and characteristics of the customer's organization.37 Marketers can counter requests for a lower price in a number of ways, including framing as noted above. They may also be able to show that the total cost of ownership, that is, the life-cycle cost of using their product, is lower TaBle 7.2 An Example of Vendor Analysis Attributes Rating Scale Importance Weights Poor (1) Fair (2) Good (3) Excellent (4) Price .30 x Supplier reputation .20 x Product reliability .30 x Service reliability .10 x Supplier flexibility .10 x Total Score: .30(4) + .20(3) + .30(4) + .10(2) + .10(3) = 3.5 202 PART 3 | ConneCTing WiTh CusTomeRs than for competitors' products. They can cite the value of the services the buyer now receives, especially if it is superior to that offered by competitors.38 Research shows that service support and personal interactions, as well as a supplier's know-how and ability to improve customers' time to market, can be useful differentiators in achieving key-supplier status.39 Improving productivity helps alleviate price pressures. Burlington Northern Santa Fe Railway has tied 30 percent of employee bonuses to improvements in the number of railcars shipped per mile.40 Some firms are using technol- ogy to devise novel customer solutions. With Web technology and tools, Vistaprint printers can offer professional printing to small businesses that previously could not afford it.41 Some companies handle price-oriented buyers by setting a lower price but establishing restrictive conditions: (1) limited quantities, (2) no refunds, (3) no adjustments, and (4) no services.42 • Cardinal Health set up a bonus-dollars plan and gave points according to how much the customer pur- chased. The points could be turned in for extra goods or free consulting. • GE is installing diagnostic sensors in its airline engines and railroad engines. It is now compensated for hours of flight or railroad travel. • IBM is now more of a "service company aided by products" than a "product company aided by services." It can sell computer power on demand (like video on demand) as an alternative to selling computers. To command price premiums in competitive B-to-B markets, firms must create compelling customer value propositions. The first step is to research the cus- tomer. Here are a number of productive research methods: 1. Internal engineering assessment—Have company engineers use laboratory tests to estimate the product's performance characteristics. Weakness: Ignores the fact that the product will have different economic values in different applications. 2. Field value-in-use assessment—Interview customers about how costs of using a new product compare with those of using an incumbent. The task is to assess how much each element is worth to the buyer. 3. Focus-group value assessment—Ask customers in a focus group what value they would put on potential market offerings. 4. Direct survey questions—Ask customers to place a direct dollar value on one or more changes in the market offering. 5. Conjoint analysis—Ask customers to rank their preferences for alternative market offerings or concepts. Use statistical analysis to estimate the implicit value placed on each attribute. 6. Benchmarks—Show customers a benchmark offering and then a new-market offering. Ask how much more they would pay for the new offering or how much less they would pay if certain features were removed from the benchmark offering. 7. Compositional approach—Ask customers to attach a monetary value to each of three alternative levels of a given attribute. Repeat for other attributes, then add the values together for any offer configuration. 8. Importance ratings—Ask customers to rate the importance of different attributes and their suppliers' performance on each. Having done this research, firms can specify the customer value proposition, following a number of important principles. First, clearly substantiate value claims by concretely specifying the differences between your offerings and those of competitors on the dimensions that matter most to the customer. Rockwell Automation identified the cost savings customers would realize from purchasing its pump instead of a competitor's by using industry-standard metrics of functionality and performance: kilowatt-hours spent, number of operating hours per year, and dollars per kilowatt-hour. Also, make the financial implications obvious. Second, document the value delivered by creating written accounts of costs savings or added value that existing customers have actually captured by using your offerings. Chemical producer Akzo Nobel conducted a two-week pilot on a production reactor at a prospective customer's facility to document the advantages of its high-purity metal organics product. Finally, make sure the method of creating a customer value proposition is well implemented within the company, and train and reward employees for devel- oping a compelling one. Quaker Chemical conducts training programs for its managers that include a competition to develop the best proposals. Sources: James C. Anderson and Finn Wynstra, "Purchasing Higher-Value, Higher-Price Offerings in Business Markets," Journal of Business-to-Business Marketing 17 (2010), pp. 29–61; James C. Anderson, Marc Wouters, and Wouter van Rossum, "Why the Highest Price Isn't the Best Price," MIT Sloan Management Review, Winter 2010, pp. 69–76; James C. Anderson, Nirmalya Kumar, and James A. Narus, Value Merchants: Demonstrating and Documenting Superior Value in Business Markets (Boston: Harvard Business School Press, 2007); James C. Anderson, James A. Narus, and Wouter van Rossum, "Customer Value Propositions in Business Markets," Harvard Business Review, March 2006, pp. 2–10; James C. Anderson and James A. Narus, "Business Marketing: Understanding What Customers Value," Harvard Business Review, November 1998, pp. 53–65. Developing Compelling Customer Value Propositionsmarketing memo AnAlyzing Business mARkeTs | chapter 7 203 Solution selling can also alleviate price pressure and comes in different forms. Here are three examples.43 • Solutions to enhance customer revenues. Hendrix UTD has used its sales consultants to help farmers deliver an incremental animal weight gain of 5 percent to 10 percent over competitors. • Solutions to decrease customer risks. ICI Explosives formulated a safer way to ship explosives for quarries. • Solutions to reduce customer costs. W. W. Grainger employees work at large customer facilities to reduce materials-management costs. More firms are seeking solutions that increase benefits and reduce costs enough to overcome any low-price concerns. Consider the following example.44 LincOLn eLecTric Lincoln Electric has a decades-long tradition of working with its customers to reduce costs through its Guaranteed Cost Reduction (GCR) Program. When a customer insists that a Lincoln distributor lower prices to match competitors, the company and the distributor may guarantee that, during the coming year, they will find cost reductions in the customer's plant that meet or exceed the price difference between Lincoln's products and the competition's. The Holland Binkley Company, a major manufacturer of components for tractor trailers, had been purchasing Lincoln Electric welding wire for years. When Binkley began to shop around for a better price on wire, Lincoln Electric devel- oped a package for reducing costs and working together that called for a $10,000 savings but eventually led to a six-figure savings, a growth in business, and a strong long-term partnership between customer and supplier. Risk and gain sharing can offset price reductions customers request. Suppose Medline, a hospital supplier, signs an agreement with Highland Park Hospital promising $350,000 in savings over the first 18 months in exchange for getting a tenfold increase in the hospital's share of supplies. If Medline achieves less than this promised savings, it will make up the difference. If it achieves substantially more, it participates in the extra savings. To make such arrangements work, the supplier must be willing to help the customer build a historical database, reach an agree- ment for measuring benefits and costs, and devise a dispute resolution mechanism. numBer oF suppliers Companies are increasingly reducing the number of their suppliers. Ford, Motorola, and Honeywell have cut their number of suppliers 20 percent to 80 percent. These companies want their chosen suppliers to be responsible for a larger component system, achieve continuous quality and performance improvement, and at the same time lower prices each year by a given percentage. They expect their suppliers to work closely with them during product development, and they value their suggestions. There is even a trend toward single sourcing, though companies that use multiple sources often cite the threat of a labor strike, natural disaster, or any other unforeseen event as the biggest deterrent to single sourcing. Another reason companies may fear single suppliers is that they can become too comfortable in the relationship and lose their competi- tive edge. Burlington Northern Santa Fe (BNSF) Railway rewards employees for improvements in the number of railcars shipped per mile. So ur ce : © B . L ei gh ty / P ho tr i l m ag es / A la m y 204 PART 3 | ConneCTing WiTh CusTomeRs order-rouTIne sPeCIFICaTIon After selecting suppliers, the buyer negotiates the final order, listing the technical specifications, the quantity needed, the expected time of delivery, return policies, warranties, and so on. Many industrial buyers lease heavy equipment such as machinery and trucks. The lessee gains a number of advantages: the latest products, better ser- vice, the conservation of capital, and some tax advantages. The lessor often ends up with a larger net income and the chance to sell to customers that could not afford outright purchase. For maintenance, repair, and operating items, buyers are moving toward blanket contracts rather than periodic purchase orders. A blanket contract establishes a long-term relationship in which the supplier promises to resup- ply the buyer as needed, at agreed-upon prices, over a specified period of time. Because the seller holds the stock, blanket contracts are sometimes called stockless purchase plans. They lock suppliers in tighter with the buyer and make it difficult for out-suppliers to break in unless the buyer becomes dissatisfied. Companies that fear a shortage of key materials are willing to buy and hold large inventories. They will sign long-term contracts with suppliers to ensure a steady flow of materials. DuPont, Ford, and several other major companies regard long-term supply planning as a major responsibility of their purchasing managers. For example, General Motors wants to buy from fewer suppliers, which must be willing to locate close to its plants and produce high-quality components. Business marketers are also setting up extranets with important customers to facilitate and lower the cost of transactions. Customers enter orders that are automatically transmitted to the supplier. Some companies go further and shift the ordering responsibility to their suppliers, using systems called vendor-managed inventory (VMI). These suppliers are privy to the customer's inventory levels and take responsibility for continuous replenishment programs. Plexco International AG supplies audio, lighting, and vision systems to the world's leading automakers. Its VMI program with its 40 suppliers resulted in significant time and cost savings and allowed the company to use former warehouse space for productive manufacturing activities.45 PerforManCe revIew The buyer periodically reviews the performance of the chosen supplier(s) using one of three methods. The buyer may contact end users and ask for their evaluations, rate the supplier on several criteria using a weighted-score method, or aggregate the cost of poor performance to come up with adjusted costs of purchase, including price. The performance review may lead the buyer to continue, modify, or end a supplier relationship. Many companies have set up incentive systems to reward purchasing managers for good buying performance, leading them to increase pressure on sellers for the best terms. Developing Effective Business-to- Business Marketing Programs Business-to-business marketers are using every marketing tool at their disposal to attract and retain customers. They are embracing systems selling and adding valuable services to their product offerings and employing cus- tomer reference programs and a wide variety of online and offline communication and branding activities. CoMMunICaTIon and BrandInG aCTIvITIes Business marketers are increasingly recognizing the importance of their brand. Swiss-based ABB is a global leader in power and automation technologies with 145,000 employees in about 100 countries. The company spends $1 billion in R&D annually to fuel a long tradition of groundbreaking and nation-building projects. An extensive and carefully planned rebranding project in 2011 evaluated five alternative positioning platforms, con- cluding that ABB should stand for "Power and Productivity for a Better World." Magazines, posters, brochures, and digital communication were all revamped to give the brand a new look.46 NetApp is another good example of the increased importance placed on branding in business-to-business marketing.47 neTaPP NetApp is a Fortune 1000 company providing data management and storage solutions to medium- and large-sized clients. Despite some marketplace success, the company found its branding efforts in disarray by 2007. Several variations of its name were in use, leading to a formal name change to NetApp in 2008. Branding consultants Landor also created a new identity, architecture, nomenclature, tone of voice, and tagline ("Go further, faster."). Messages AnAlyzing Business mARkeTs | chapter 7 205 emphasized NetApp's superior technology, innovation, and customer-centric "get things done" culture. Some marketing efforts still left a few things to be desired, however. Called "Frankensites" because they had been modified by so many developers over a 12-year period, the company's Web sites were streamlined to organize the company's presentation and make updates easier. The new Web sites were estimated to increase sales leads from inquiries fourfold. Investing heavily in marketing communications despite the recession, NetApp also ran print and online ads and tapped into a number of social media outlets—communities and forums, bloggers, Facebook, Twitter, and YouTube. Social media initiatives helped it in Asia where it did not have an advertising presence. In business-to-business marketing, the corporate brand is often critical because it is associated with so many of the company's products. At one time, Emerson Electric, a global provider of power tools, compressors, electrical equipment, and engineering solutions, was a conglomerate of 60 autonomous—and sometimes anonymous—com- panies. A new CMO, Kathy Button Bell, aligned the brands under a new global brand architecture and identity, allowing Emerson to achieve a broader presence so it could sell locally while leveraging its global brand name. She also took on the challenge of strengthening the corporate brand online. A global consolidation cut the number of company Web sites in half; Web sites and marketing campaigns were translated into local languages around the globe; and social media platforms were built out. Record sales and stock price highs have followed.48 SAS SAS is an- other firm that recognized the importance of its corporate brand.49 SaS With sales of more than $2.3 billion and a huge "fan club" of IT customers, SAS, the business analytics soft- ware and services firm, seemed to be in an enviable position in 1999. Yet its image was what one industry observer called "a geek brand." To extend the company's reach beyond IT managers with PhDs in math or statistical analysis, the company needed to connect with C-level executives in the largest companies—people who either didn't have a clue what SAS's software was or didn't think business analytics was a strategic issue. Working with its first outside ad agency ever, SAS emerged with a new logo, a new slogan, "The Power to Know®," and a series of TV spots and print ads in business publica- tions such as BusinessWeek, Forbes, and the Wall Street Journal. One TV spot that exemplifies SAS's rebranding effort ran like this: The problem is not harvesting the new crop of e-business information. It's making sense of it. With e-intelligence from SAS, you can harness the information. And put the knowledge you need within reach. SAS. The Power to Know. Later research showed that SAS had made the transition to a mainstream business decision-making support brand and was seen as both user-friendly and necessary. Highly profitable and now one of the world's largest privately owned soft- ware companies, more than doubling its revenue stream since the brand change, SAS has met with just as much success inside the company. For more than 15 years, Fortune magazine has ranked it one of the best U.S. companies to work for. Here are some examples of the way top firms are redesigning Web sites, improving search results, engaging in social media, and launching Webinars and podcasts to improve their business performance through their B-to-B marketing. • Chapman Kelly provides audit and other cost-containment products to help firms reduce their health care and insurance costs. The company originally tried to acquire new customers through traditional cold calling and outbound selling techniques. After it redesigned its Web site and optimized the site's search engine so the company's name moved close to the top of relevant online searches, revenue nearly doubled.50 • Emerson Process Management makes automation systems for chemical plants, oil refineries, and other types of factories. Readers like to hear and swap factory war stories on the company's blog about factory automa- tion, which attracts 35,000 to 40,000 regular visitors each month and generates five to seven leads a week. Given that its systems sell for millions of dollars, ROI on the blog investment is immense.51 • Machinery manufacturer Makino builds relationships with end-user customers by hosting an ongoing series of industry-specific Webinars, averaging three a month. The company uses highly specialized content, such as how to get the most out of machine tools and how metal-cutting processes work, to appeal to different industries and different styles of manufacturing. Its database of Webinar participants has allowed the firm to cut marketing costs and improve its effectiveness and efficiency.52 • Canadian supply-chain management company Kinaxis uses a fully integrated approach to communications including blogs, white papers, and a video channel that hinges on specific keywords to drive traffic to its Web 206 PART 3 | ConneCTing WiTh CusTomeRs site and generate qualified leads. With research suggesting that 93 percent of all B-to-B purchases start with search, Kinaxis puts much emphasis on search engine optimization (SEO), reusing and repurposing content as much as possible to make it relevant and "Google-friendly."53 Some business-to-business marketers are adopting marketing practices from business-to-consumer markets to build their brand. Xerox ran a fully integrated communication campaign to cleverly reinforce the fact that 50 percent of its revenue comes from business services and not copiers. Here is how its Marriott ad unfolded:54 Two Marriott bellmen are sitting in an office. "Did you finish last month's invoices?" one asks the other. "No, but I did pick up your dry cleaning and have your shoes shined," the second replies. "Well, I made you a reservation at the sushi place around the corner!" the first bellman says. This voiceover follows: "Marriott knows it's better for Xerox to automate their global invoice processes so they can focus on serv- ing their customers." Sometimes a more personal touch can make all the difference. Customers considering dropping six or seven figures on one transaction for big-ticket goods and services want all the information they can get, especially from a trusted, independent source. "Marketing Memo: Spreading the Word with Customer Reference Programs" de- scribes the role of that increasingly important marketing tool. sYsTeMs BuYInG and sellInG Many business buyers prefer to buy a total problem solution from one seller. Called systems buying, this practice originated with government purchases of major weapons and communications systems. The government solic- ited bids from prime contractors that, if awarded the contract, became responsible for bidding out and assembling the system's subcomponents from second-tier contractors. The prime contractor thus provided a turnkey solution, so-called because the buyer simply had to turn one key to get the job done. Sellers have increasingly recognized that buyers like to purchase in this way, and many have adopted systems selling as a marketing tool. Cisco Systems began to take share from telcommunications rival Avaya by offering cus- tomers a one-stop solution for communications technology.55 Technology giants such as Hewlett-Packard, IBM, Oracle, Dell, and EMC are all transitioning from specialists to competing one-stop shops that can provide the core technology necessary as businesses shift to the cloud.56 One variant of systems selling is systems contracting, in which a single supplier provides the buyer with its entire requirement of MRO supplies. During the contract period, the supplier also manages the customer's in- ventory. Shell Oil manages the oil inventories of many of its business customers and knows when they require replenishment. The customer benefits from reduced procurement and management costs and from price protec- tion over the term of the contract. The seller achieves lower operating costs thanks to steady demand and reduced paperwork. Systems selling is a key industrial marketing strategy in bidding to build large-scale industrial projects such as dams, steel factories, irrigation systems, sanitation systems, pipelines, utilities, and even new towns. Project Machinery maker Makimo employs an extensive series of webinars to build stronger ties with its customers. So ur ce : M ak in o AnAlyzing Business mARkeTs | chapter 7 207 engineering firms must compete on price, quality, reliability, and other attributes to win contracts. Suppliers, however, are not just at the mercy of customer demands. Ideally, they're active early in the process to influence the actual development of the specifications. Or they can go beyond the specifications to offer additional value in vari- ous ways, as the following example shows. SeLLing TO The indOneSian gOVernMenT The Indonesian govern- ment requested bids to build a cement factory near Jakarta. A U.S. firm made a proposal that included choosing the site, designing the factory, hiring the construction crews, assembling the materials and equipment, and turning over the finished factory to the Indonesian government. A Japanese firm, in its proposal, included all these services, plus hiring and training the workers to run the factory, exporting the cement through its trading companies, and using the cement to build roads and new office buildings in Jakarta. Although the Japanese plan would cost more money, it won the contract. Clearly, the Japanese viewed the problem not just as building a cement factory (the narrow view of systems selling) but as contributing to Indonesia's economic development. They took the broadest view of the customer's needs, which is true systems selling. role of servICes Services play an increasing strategic and financial role for many business-to-business firms selling primarily products. Adding high-quality services to their product offerings allows them to provide greater value and estab- lish closer ties with customers. A classic example is Rolls-Royce, which has invested heavily in developing giant jet engine models for the new jumbo planes being introduced by Boeing and Airbus. An important source of profits for Rolls-Royce, beyond sell- ing engines and replacement parts, is the add-on "power by the hour" long-term repair and maintenance contracts it sells. Margins are higher because customers are willing to pay a premium for the peace of mind and predictability the contracts offer.57 In a networked economy, buyers increasingly rely on the input of others to help them make purchase decisions. One way to entice or reassure potential new buyers is to create a customer reference program in which satisfied existing customers act in concert with the company's sales and marketing department by agreeing to serve as references. Technology companies such as HP, Lucent, and Unisys have all employed such programs. Buyers can interact with a company and its customers in a variety of ways—via social media; conferences, events, and trade shows; and their own per- sonal and professional networks. Companies need to recognize the importance of peer-to-peer interaction and know how they can assist a potential buyer. One expert offers the following advice: 1. Establish a formal, organized customer reference program to build an army of advocates. 2. Put references at the center of your growth strategy. 3. Give your customer reference program a seat at the table by using an experienced executive as its leader. 4. Don't strive for "100 percent referenceability"—put focus on a smaller group of truly committed, impactful company advocates. 5. Revolutionize your customer value proposition; find customers who want to be advocates because of their passion for the company and not as the result of any financial inducement. Research has shown that another potential benefit of a customer reference program is that it can increase the loyalty even of the customer advocates themselves. Sources: V. Kumar, J. Andrew Petersen, and Robert P. Leone, "Defining, Measuring, and Managing Business Reference Value," Journal of Marketing 77 (January 2013), pp. 68–86; David Godes, "The Strategic Impact of References in Business Markets," Marketing Science 31 (March–April 2012), pp. 257–76; Bill Lee, "Customer Reference Programs at the Tipping Point," HBR Blog Network, June 7, 2012. Spreading the Word With Customer Reference Programsmarketing memo 208 PART 3 | ConneCTing WiTh CusTomeRs Technology firms are also bundling services to improve customer satisfaction and increase profits. Like many software firms, Adobe Systems is making the transition to a digital-marketing business with cloud-based monthly subscriptions. Revenue is increasing because the company is able to sell support services, Web site hosting, and server management to its cloud customers.58 All kinds of firms are finding ways to bundle value-added services to their products. Italian firm Mondo makes state-of-the-art running tracks for stadiums all over the world. Despite competition, it has continued to win new clients, such as the London Olympics, in part because of the installation and maintenance services it offers.59 Managing Business-to-Business Customer Relationships Business suppliers and customers are exploring different ways to manage their relationships.60 Loyalty is driven in part by supply chain management, early supplier involvement, and purchasing alliances.61 Business-to-business marketers are avoiding "spray and pray" approaches to attracting and retaining custom- ers in favor of honing in on their targets and developing one-to-one marketing approaches.62 Nearly 80 percent of the Fortune 500 use SAP software, but the software giant begin to lose market share and revenue when, as one cofounder observed, "We had lost the trust in relationships with our customers, and employees did not believe in management." Embracing innovation with new cloud-based services was a big part of the company's turnaround strategy; the other was focusing on improving customer relationships. A controversial price hike introduced dur- ing the financial crisis was reversed, and new co-CEOs vowed to listen more closely to customer concerns.63 The BenefITs of verTICal CoordInaTIon Much research has advocated greater vertical coordination between buying partners and sellers so they can transcend merely transacting and instead create more value for both parties.64 Building trust is one prerequisite to enjoying healthy long-term relationships. "Marketing Insight: Establishing Corporate Trust, Credibility, and Reputation" identifies some key dimensions of such trust. Knowledge that is specific and relevant to a relation- ship partner is also an important factor in the strength of interfirm ties.65 A number of forces influence the development of a relationship between business partners. Four relevant ones are availability of alternatives, importance of supply, complexity of supply, and supply market dynamism. Based on these we can classify buyer–supplier relationships into eight categories:66 1. Basic buying and selling—These are simple, routine exchanges with moderate levels of cooperation and infor- mation exchange. 2. Bare bones—These relationships require more adaptation by the seller and less cooperation and information exchange. 3. Contractual transaction—These exchanges are defined by formal contract and generally have low levels of trust, cooperation, and interaction. Mondo combines state-of-the-art running tracks with value-added services to successfully sell to stadiums all over the world. So ur ce : M on do S .p .A . AnAlyzing Business mARkeTs | chapter 7 209 4. Customer supply—In this traditional supply situation, competition rather than cooperation is the dominant form of governance. 5. Cooperative systems—The partners in cooperative systems are united in operational ways, but neither dem- onstrates structural commitment through legal means or adaptation. 6. Collaborative—In collaborative exchanges, much trust and commitment lead to true partnership. 7. Mutually adaptive—Buyers and sellers make many relationship-specific adaptations, but without necessarily achieving strong trust or cooperation. 8. Customer is king—In this close, cooperative relationship, the seller adapts to meet the customer's needs with- out expecting much adaptation or change in exchange. Over time, however, relationship roles may shift or be activated under different circumstances.67 Some needs can be satisfied with fairly basic supplier performance. Buyers then neither want nor require a close relationship with a supplier. Likewise, some suppliers may not find it worth their while to invest in customers with limited growth potential. One study found the closest relationships between customers and suppliers arose when supply was important to the customer and there were procurement obstacles, such as complex purchase requirements and few alternate suppliers.68 Another study suggested that greater vertical coordination between buyer and seller through informa- tion exchange and planning is usually necessary only when high environmental uncertainty exists and specific investments (described next) are modest.69 rIsks and oPPorTunIsM In BusIness relaTIonshIPs Researchers have noted that establishing a customer–supplier relationship creates tension between safeguarding (ensuring predictable solutions) and adapting (allowing for flexibility for unanticipated events). Vertical coordi- nation can facilitate stronger customer–seller ties but may also increase the risk to the customer's and supplier's specific investments.70 Establishing Corporate Trust, Credibility, and Reputation Corporate credibility is the extent to which customers believe a firm can design and deliver products and services that satisfy their needs and wants. It reflects the supplier's reputation in the marketplace and is the foundation of a strong relationship. Corporate credibility depends on three factors: • Corporate expertise, the extent to which a company is seen as able to make and sell products or conduct services. • Corporate trustworthiness, the extent to which a company is seen as motivated to be honest, dependable, and sensitive to customer needs. • Corporate likability, the extent to which a company is seen as lik- able, attractive, prestigious, and dynamic. In other words, a credible firm is good at what it does; it keeps its cus- tomers' best interests in mind and is enjoyable to work with. Trust is a firm's willingness to rely on a business partner. It depends on a number of interpersonal and interorganizational fac- tors, such as the firm's perceived competence, integrity, honesty, and benevolence. Personal interactions with employees of the firm, opinions about the company as a whole, and perceptions of trust will evolve with experience. A firm is more likely to be seen as trustworthy when it: • Provides full, honest information • Provides employee incentives aligned to meet customer needs • Partners with customers to help them learn and help themselves • Offers valid comparisons with competitive products Building trust can be especially tricky in online settings, and firms often impose more stringent requirements on their online business partners than on others. Business buyers worry that they won't get products of the right quality delivered to the right place at the right time. Sellers worry about getting paid on time—or at all—and debate how much credit they should extend. Some firms, such as transportation and supply chain management company Ryder System, use automated credit-checking applications and online trust services to assess the creditworthiness of trading partners. Sources: Kevin Lane Keller and David A. Aaker, "Corporate-Level Marketing: The Impact of Credibility on a Company's Brand Extensions," Corporate Reputation Review 1 (August 1998), pp. 356–78; Robert M. Morgan and Shelby D. Hunt, "The Commitment–Trust Theory of Relationship Marketing," Journal of Marketing 58, no. 3 (July 1994), pp. 20–38; Christine Moorman, Rohit Deshpande, and Gerald Zaltman, "Factors Affecting Trust in Market Research Relationships," Journal of Marketing 57 (January 1993), pp. 81–101; Glen Urban, "Where Are You Positioned on the Trust Dimensions?," Don't Just Relate-Advocate: A Blueprint for Profit in the Era of Customer Power (Upper Saddle River, NJ: Pearson Education/Wharton School Publishers, 2005). marketing insight 210 PART 3 | ConneCTing WiTh CusTomeRs Specific investments are those expenditures tailored to a particular company and value chain partner (investments in company-specific training, equipment, and operating procedures or systems).71 They help firms grow profits and achieve their positioning.72 Xerox worked closely with its suppliers to develop customized pro- cesses and components that reduced its copier manufacturing costs by 30 percent to 40 percent. In return, sup- pliers received sales and volume guarantees, an enhanced understanding of their customer's needs, and a strong position with Xerox for future sales.73 Specific investments, however, also entail considerable risk to both customer and supplier. Transaction theory from economics maintains that because these investments are partially sunk, they lock firms into a particular rela- tionship. Sensitive cost and process information may need to be exchanged. A buyer may be vulnerable to holdup because of switching costs; a supplier may be more vulnerable because it has dedicated assets and/or technology/ knowledge at stake. In terms of the latter risk, consider the following example.74 An automobile component manufacturer wins a contract to supply an under-hood component to an original equipment manufacturer (OEM). A one-year, sole-source contract safeguards the supplier's OEM-specific investments in a dedicated production line. However, the supplier may also be obliged to work (noncontractually) as a partner with the OEM's internal engineering staff, using linked computing facilities to exchange detailed engineering information and coordinate frequent design and manufactur- ing changes over the term of the contract. These interactions could reduce costs and/or increase quality by improving the firm's responsiveness to marketplace changes. But they could also magnify the threat to the supplier's intellectual property. When buyers cannot easily monitor supplier performance, the supplier might shirk or cheat and not deliver the expected value. Opportunism is "some form of cheating or undersupply relative to an implicit or explicit contract."75 When it was discovered in 2007 that a supplier to a supplier to a supplier to a supplier of Mattel chose to use lead-based ingredients outside Mattel's specification, the toy-makers reputation took a significant PR hit. A more passive form of opportunism might be a refusal or unwillingness to adapt to changing circumstances or just negligence in satisfying contractual obligations. When a peanut-processing company, Peanut Corporation of America, with only $25 million in sales was found to have a contaminated product, a $1 billion recall resulted because the ingredient was found in 2,000 other products.76 Opportunism is a concern because firms must devote resources to control and monitoring that they could otherwise allocate to more productive purposes. Contracts may become inadequate to govern supplier transac- tions when supplier opportunism becomes difficult to detect, when firms make specific investments in assets they cannot use elsewhere, and when contingencies are harder to anticipate. Customers and suppliers are more likely to form a joint venture (instead of signing a simple contract) when the supplier's degree of asset specificity is high, monitoring the supplier's behavior is difficult, and the supplier has a poor reputation.77 When a supplier has a good reputation, it is more likely to avoid opportunism to protect this valuable intangible asset. The presence of a significant future time horizon and/or strong solidarity norms typically causes customers and suppliers to strive for joint benefits. Their specific investments shift from expropriation (increased opportunism on the receiver's part) to bonding (reduced opportunism).78 A firm like Mattel must carefully monitor its suppliers' behaviors to ensure they conform to company standards and values. So ur ce : A SS O CI AT E D P R E SS AnAlyzing Business mARkeTs | chapter 7 211 Institutional and Government Markets Our discussion has concentrated largely on the buying behavior of profit-seeking companies. Much of what we have said also applies to the buying practices of institutional and government organizations. However, we want to highlight certain special features of these markets. The institutional market consists of schools, hospitals, nursing homes, prisons, and other institutions that must provide goods and services to people in their care. Many of these organizations are characterized by low budgets and captive clienteles. For example, hospitals must decide what quality of food to buy for patients. The buying objective here is not profit because the food is provided as part of the total service package; nor is cost mini- mization the sole objective because poor food will cause patients to complain and hurt the hospital's reputation. The hospital purchasing agent must search for institutional-food vendors whose quality meets or exceeds a certain minimum standard and whose prices are low. In fact, many food vendors set up a separate sales division to cater to institutional buyers' special needs and characteristics. Heinz produces, packages, and prices its ketchup differently to meet the requirements of hospitals, colleges, and prisons. ARAMARK, which provides food services for stadi- ums, arenas, campuses, businesses, and schools, also has a competitive advantage in providing food for the nation's prisons, a direct result of refining its purchasing practices and supply chain management.79 araMark Where ARAMARK once merely selected products from lists provided by potential suppliers, it now collaborates with suppliers to develop products customized to meet the needs of individual segments. In the corrections seg- ment, quality has historically been sacrificed to meet food cost limits that operators outside the market would find impossible to work with. "When you go after business in the corrections field, you are making bids that are measured in hundredths of a cent," says John Zillmer, president of ARAMARK's Food & Support Services, "so any edge we can gain on the purchasing side is extremely valuable." ARAMARK sourced a series of protein products with unique partners at price points it never could have imagined before. These partners were unique because they understood the chemistry of proteins and knew how to lower the price while still creating a product acceptable to ARAMARK's customers, allowing the company to drive down costs. Then ARAMARK replicated this process with 163 different items formulated exclusively for corrections. Rather than reducing food costs by 1 cent or so a meal as usual, ARAMARK took 5 to 9 cents off—while maintaining or even improving quality. In most countries, government organizations are a major buyer of goods and services. They typically require suppliers to submit bids and often award the contract to the lowest bidder, sometimes making allowance for supe- rior quality or a reputation for completing contracts on time. Governments will also buy on a negotiated-contract basis, primarily in complex projects with major R&D costs and risks and those where there is little competition. A major complaint of multinationals operating in Europe is that each country shows favoritism toward its nationals despite superior offers from foreign firms. Although such practices are fairly entrenched, the European Union is attempting to remove this bias. Another challenge is the volatility of spending due to economic swings and cycles. When state governments suddenly cut back their spending, a firm like Cisco, which makes 22 percent of its sales to the public sector, is likely to feel the effects.80 When the U.S. government announced a long-term cutback of hundreds of billions of dollars in defense spending in 2011—with more cuts anticipated—many defense contractors prepared to take significant hits.81 Because their spending decisions are subject to public review, government organizations require considerable paperwork from suppliers, who often complain about bureaucracy, regulations, decision-making delays, and frequent shifts in procurement staff. But the fact remains that the U.S. government now spends more than $500 billion a year—or roughly 14 percent of the federal budget—on private-sector contractors, making it the largest and potentially the most attractive customer in the world.82 Motorola Solutions, created when Motorola was split into two companies, sells wireless communications equipment to public-safety agencies around the world that need state-of-the-art com- munications networks for police cars in a multibillion-dollar government market.83 Not only the dollar figure is large; so is the number of individual buys. According to the General Services Administration Procurement Data Center, more than 20 million individual contract actions are processed every year. Although most items purchased cost between $2,500 and $25,000, the government also makes purchases in the billions, many in technology. Government decision makers often think vendors have not done their homework. Different types of agencies—defense, civilian, intelligence—have different needs, priorities, purchasing styles, and time frames. In addition, vendors often do not pay enough attention to cost justification, a major activity for government procurement pro- fessionals. Companies hoping to be government contractors need to help government agencies see the bottom-line 212 PART 3 | ConneCTing WiTh CusTomeRs impact of products. Demonstrating useful experience and successful past performance through case studies, espe- cially with other government organizations, can be influential.84 Just as companies provide government agencies with guidelines about how best to purchase and use their prod- ucts, governments provide would-be suppliers with detailed guidelines describing how to sell to the government. Failure to follow the guidelines or to fill out forms and contracts correctly can create a legal nightmare.85 Fortunately for businesses of all sizes, the federal government has been trying to simplify the contracting pro- cedure and make bidding more attractive. Reforms place more emphasis on buying off-the-shelf items instead of customized ones, communicating with vendors online to eliminate paperwork, and debriefing losing vendors to improve their chances of winning the next time around.86 More purchasing is being done online via Web-based forms, digital signatures, and electronic procurement cards (P-cards). Several federal agencies that act as purchasing agents for the rest of the government have launched Web-based catalogs that allow authorized defense and civilian agencies to buy everything from medical and office supplies to clothing online. The General Services Administration, for example, not only sells stocked merchandise through its Web site but also creates direct links between buyers and contract suppliers. A good starting point for any work with the U.S. government is to make sure the company is in the Central Contractor Registration (CCR) database (www.ccr.gov), which collects, validates, stores, and disseminates data in support of agency acquisitions.87 Still, many companies that sell to the government have not used a marketing orientation, though some have established separate government marketing departments. Gateway, Rockwell, Kodak, and Goodyear anticipate government needs and projects, participate in the product specification phase, gather competitive intelligence, prepare bids carefully, and produce strong communications to describe and enhance their companies' reputations. environmental, organizational, interpersonal, and indi- vidual factors. 4. The buying process consists of eight stages called buy- phases: (1) problem recognition, (2) general need de- scription, (3) product specification, (4) supplier search, (5) proposal solicitation, (6) supplier selection, (7) order- routine specification, and (8) performance review. 5. Business marketers are strengthening their brands and using technology and other communication tools to de- velop effective marketing programs. They are also using systems selling and adding services to provide custom- ers added value. 6. Business marketers must form strong bonds and rela- tionships with their customers. Some customers, how- ever, may prefer a transactional relationship. 7. The institutional market consists of schools, hospitals, nursing homes, prisons, and other institutions that pro- vide goods and services to people in their care. Buyers for government organizations tend to require a great deal of paperwork from their vendors and to favor open bidding and domestic companies. Suppliers must be prepared to adapt their offers to the special needs and procedures found in institutional and government markets. Summary 1. Organizational buying is the decision-making process by which formal organizations establish the need for pur- chased products and services, then identify, evaluate, and choose among alternative brands and suppliers. 2. The business market consists of all the organizations that acquire goods and services used in the production of other products or services that are sold, rented, or supplied to others. 2. Compared with consumer markets, business markets generally have fewer and larger buyers, a closer cus- tomer-supplier relationship, and more geographically concentrated buyers. Demand in the business market is derived from demand in the consumer market and fluc- tuates with the business cycle. Nonetheless, the total demand for many business goods and services is quite price inelastic. Business marketers need to be aware of the role of professional purchasers and their influencers, the need for multiple sales calls, and the importance of direct purchasing, reciprocity, and leasing. 3. The buying center is the decision-making unit of a buy- ing organization. It consists of initiators, users, influenc- ers, deciders, approvers, buyers, and gatekeepers. To influence these parties, marketers must consider MyMarketingLab go to mymktlab.com to complete the problems marked with this icon as well as for additional auto-graded and assisted-graded writing questions. AnAlyzing Business mARkeTs | chapter 7 213 Applications Marketing Debate How Different Is Business-to-Business Marketing? Some business-to-business marketing executives lament the challenges of business-to-business marketing, main- taining that many traditional marketing concepts and prin- ciples do not apply and that selling products and services to a company is fundamentally different from selling to individu- als. Others disagree, claiming marketing theory is still valid and only requires some adaptation in marketing tactics. Take a position: Business-to-business marketing requires a special, unique set of marketing concepts and principles versus Business-to-business marketing is really not that different, and the basic marketing con- cepts and principles apply. Marketing Discussion Applying B-to-C Concepts to B-to-B Consider some of the consumer behavior topics from Chapter 6. How might you apply them to business-to-business (B-to-B) settings? For example, how might noncompensatory mod- els of choice work? Mental accounting? Ac.com Web site), which would help the firm retain some of its former brand equity. At midnight on December 31, 2000, Andersen Consulting officially adopted the Accenture name and launched a global advertising, mar- keting, and communications campaign targeting senior executives at its clients and prospects, all partners and employees, the media, leading industry analysts, potential recruits, and academia. The results were quick and impressive. Accenture's brand equity increased 11 percent the first year, and the number of firms that inquired about its services increased 350 percent. Awareness of the company's breadth and depth of services reached 96 percent of its previous level, and awareness of Accenture as a provider of manage- ment and technology consulting services already topped 76 percent of its previous level. These results enabled Accenture to successfully complete a $1.7 billion IPO in July 2001. Accenture's key differentiator was the abil- ity both to provide innovative ideas—ideas grounded in business processes as well as IT—and to execute them. Competitors such as McKinsey were seen as highly specialized at developing strategy, whereas other competitors such as IBM were seen as highly skilled in technological implementation. Accenture wanted to be seen as excelling at both. As Jim Wattmore, its UK chief, explained: "Unless you can provide both transformational consulting and outsourcing capability, you're not going to win. Clients expect both." In 2002, Accenture unveiled a new positioning state- ment, which reflected its role as a partner that helped cre- ate strategies and execute them. The tagline "Innovation Delivered" was supported by the statement "From innova- tion to execution, Accenture helps accelerate your vision." Marketing Excellence >> Accenture Accenture was launched as the Administrative Accounting Group in 1942 and was the consulting arm of accounting firm Arthur Andersen. In 1989, it became a separate busi- ness unit focused on IT consulting and bearing the name Andersen Consulting. By that time, though it was earning $1 billion annually, Andersen Consulting had low brand awareness among information technology consultancies and was commonly mistaken for its corporate parent. To build a strong brand and separate itself from the account- ing firm, Andersen Consulting launched the first large- scale advertising campaign in the professional services area. By the end of the decade, it was the world's largest management and technology consulting organization. In 2000, following arbitration against its former par- ent, Andersen Consulting was granted full independence from Arthur Andersen but had to relinquish the Andersen name. Andersen Consulting was given three months to find a name that could be trademarked in 47 countries, was effective and inoffensive in more than 200 languages, was acceptable to employees and clients, and corre- sponded with an available URL. The effort that followed was one of the largest and most successful rebranding campaigns in corporate history. The company's new name came from one of the company's own consultants at its Oslo office. As part of an internal name-generation initiative dubbed "Brandstorming," he submitted the Accenture name be- cause it rhymed with "adventure" and suggested an "accent on the future." The name also retained the "Ac" of the original Andersen Consulting name (echoing the 214 PART 3 | ConneCTing WiTh CusTomeRs As the company diversified its business-to-business product lines in the 1970s and 1980s, it created new corporate campaigns, including "Progress for People" and "We Bring Good Things to Life." In 1981, Jack Welch succeeded Reginald Jones as GE's eighth CEO. During Welch's two decades of leadership, he helped grow GE from an "American manufacturer into a global services giant" and increased the company's market value from $12 billion in 1981 to $280 billion in 2001, making it the world's most valuable corporation at the time. Over the years, GE has exhibited a keen under- standing of the business market and the business buy- ing process by putting itself in the shoes of its business Marketing Excellence >> GE Thomas Edison founded the Edison Electric Light Company in 1878. The company, which soon changed its name to General Electric (GE), became an early pioneer in lightbulbs and electrical appliances and served the electrical needs of various industries, such as transporta- tion, utilities, manufacturing, and broadcasting. GE be- came the acknowledged pioneer in business-to-business marketing in the 1950s and 1960s under the tagline "Progress Is Our Most Important Product." As part of its new commitment to helping clients achieve their business objectives, Accenture also introduced a policy whereby many of its contracts contained incentives that it realized only if specific business targets were met. For instance, a contract with British travel agent Thomas Cook was structured such that Accenture's bonus de- pended on five metrics, including a cost-cutting one. In late 2003, Accenture built upon the "Innovation Delivered" theme and announced its new tagline, "High Performance. Delivered," along with a campaign that fea- tured golf superstar Tiger Woods as spokesperson. When Accenture sought Woods as its spokesperson, the athlete was at the top of his game—the world's best golfer with an impeccable image and an ideal symbol of high perfor- mance. Accenture's message communicated that it could help client companies become "high-performing business leaders," and the Woods endorsement drove home the importance of high performance. Over the next six years, Accenture spent nearly $300 million in ads that mostly featured Tiger Woods, alongside slogans such as "We know what it takes to be a Tiger" and "Go on. Be a Tiger." The campaign capitalized on Woods's international appeal, ran all over the world, and became the central focus of Accenture-sponsored events such as the World Golf Championships and the Chicago Marathon. That all changed when the scandal surrounding Tiger Woods, his extramarital affairs, and his indefinite absence from golf hit the press in late 2009. Accenture dropped Woods as a spokesperson, saying he was no longer a good fit for its brand. Indeed, focus groups showed that consumers were too distracted by the scandal to focus on Accenture's strategic message. Accenture found itself in familiar territory and worked on developing and execut- ing a groundbreaking campaign that not only resonated across the world and translated appropriately into differ- ent cultures but also elevated Accenture's brand to the next level. In 2011, Accenture launched the "Greater Than" campaign to an international audience across 35 coun- tries. The campaign highlighted successful case studies from clients like Unilever, Starwood Hotels, and Caterpillar and focused on Accenture's capabilities in areas such as emerging technologies and globalization. The company conducted extensive research to ensure that its brand positioning—"High performance. Delivered."—was not only effective but also still relevant to business leaders. Lastly, Accenture created a new marketing twist to the campaign. The "greater than" symbol, >, which had al- ways appeared in the Accenture logo, was pulled out and used as a major element of the campaign. It appeared on cabs and billboards in major cities and became a critical unifying element across all Accenture's print, digital, and social media as well as among employees. Today, Accenture continues to excel as a global man- agement consulting, technology services, and outsourc- ing company. Its clients include 99 of the Fortune Global 100 and more than three-quarters of the Fortune Global 500. The company ended fiscal 2013 with revenues of $28.6 billion and has a brand value close to $9 billion. Questions 1. How does Accenture target its B-to-B audience so effectively? 2. Evaluate Accenture's history of branding campaigns. What remains consistent throughout? Sources: Accenture.com, "Annual Reports," Accenture.com; "Lessons Learned from Top Firms' Marketing Blunders," Management Consultant International, December 2003, p. 1; Sean Callahan, "Tiger Tees Off in New Accenture Campaign," BtoB Magazine, October 13, 2003, p. 3; "Inside Accenture's Biggest UK Client," Management Consultant International, October 2003, pp. 1–3; "Accenture's Results Highlight Weakness of Consulting Market," Management Consultant International, October 2002, pp. 8–10; "Accenture Re-Branding Wins UK Plaudits," Management Consultant International, October 2002, p. 5; Mary Ellen Podmolik, "Accenture Turns to Tiger for Global Marketing Effort," BtoB Magazine, October 25, 2004; Sean Callahan, "Tiger Tees Off in New Accenture Campaign," BtoB Magazine, October 13, 2003; Emily Steel, "After Ditching Tiger, Accenture Tries New Game," Wall Street Journal, January 14, 2010; "Best Global Brands 2012," Interbrand. AnAlyzing Business mARkeTs | chapter 7 215 customers. For example, the company understands that buying an aircraft engine is a multimillion-dollar expendi- ture that doesn't end with the purchase. Customers (the airlines) face substantial maintenance costs to meet FAA guidelines and ensure reliability of the engines. In 1999, GE pioneered a new pricing option called "Power by the Hour," giving customers an opportunity to pay a fixed fee each time they run the engine. In return, GE performs all the maintenance and guarantees the engine's reliability. When demand for air travel is uncertain, "Power by the Hour" provides GE's customers with a lower cost of ownership. In 2003, GE and its new CEO, Jeffrey Immelt, faced a fresh challenge: how to promote its diversified brand with a unified global message. A source at GE explained, "[Immelt] wants advertising that's more high-tech, more innovative and contemporary. Something that will make GE look more advanced, cut in front." So, after 24 years and $1 billion in financial support, GE dropped its signature slogan "We Bring Good Things to Life" for the new tagline "Imagination at Work," highlighting its renewed focus on innovation and new technology. The award-winning new campaign promoted units such as GE Aircraft Engines, Medical Systems, and Plastics, focusing on the breadth of the company's prod- uct offerings, and it got results. "Research indicates GE is now being associated with attributes such as being high tech, leading edge, innovative, contemporary, and cre- ative," stated Judy Hu, GE's general manager for global advertising and branding. In addition, survey respondents continued to associate GE with some of its traditional at- tributes, including trust and reliability. In 2005, GE evolved the campaign into a company- wide initiative that continues today, "Ecomagination." Ecomagination highlighted the company's efforts to de- velop environmentally friendly "green" technologies such as solar energy, lower-emission engines, and water pu- rification technologies. GE initially set several aggressive goals for the new initiative, including doubling the revenue from "Ecomagination" products to $20 billion in five years and promising to reduce greenhouse gas emissions by 1 percent within seven years. The company believed then and still believes that embracing innovation around Ecomagination is critical to its growth. Immelt made some strategic restructuring decisions that helped the company survive the worldwide reces- sion of 2008 and 2009 and also helped shift it even more in the B-to-B direction. GE moved from 11 divisions to five and sold off some of its consumer-focused busi- nesses, including 51 percent of NBC Universal (sold to Comcast). This shift allowed the company to spend more resources on innovation, green initiatives, and its growing businesses such as power generation, aviation, medical imaging, and fuel cell technologies. GE understood that it needed another huge initia- tive to help pull the conglomerate out of its current poor financial situation. Management believed there was huge growth potential in affordable health care around the world. As a result, the company embraced a $6 billion company-wide initiative called Healthymagination. The business strategy aimed at growing GE's health care business by providing innovative solutions to more people around the world, and the company launched an inte- grated marketing plan for it. GE's B-to-B marketing savvy has helped it lock in the top position in the Financial Times's "World's Most Respected Companies" ranking for years. The com- pany's in-depth understanding of each of its business markets has kept its B-to-B marketing strategies pro- gressive, relevant, and effective. In addition, its global marketing campaign helps keep brand equity strong. GE was ranked sixth in Interbrand/BusinessWeek's "Top 100 Global Brands" report, with a brand value of $45 billion. "The GE brand is what connects us all and makes us so much better than the parts," Chief Marketing Officer Beth Comstock said. Today, General Electric operates in a wide range of industries, including power and water, oil and gas, en- ergy management, aviation, health care, transportation, home and business solutions, and financial services. Its revenues topped $146 billion in 2013, making it so large that its largest business units could rank separately in the Fortune 200. If GE were a country, it would be the 50th largest in the world, ahead of Kuwait, New Zealand, and Iraq. Questions 1. Discuss GE's B-to-B marketing strategy. Why has the company been so successful over the years at targeting such a large business audience? 2. Have "Ecomagination" and "Healthymagination" suc- cessfully communicated GE's focus on its newer endeavors? Why or why not? Sources: "A New Life. General Elective to Change Corporate Image," Delaney Report, June 10, 2002; Geoffrey Colvin, "What Makes GE Great?," Fortune, March 6, 2006, pp. 90–104; Thomas A. Stewart, "Growth as a Process," Harvard Business Review, June 2006, pp. 60–70; Kathryn Kranhold, "The Immelt Era, Five Years Old, Transforms GE," Wall Street Journal, September 11, 2006; Daniel Fisher, "GE Turns Green," Forbes, August 15, 2005, pp. 80– 85; John A. Byrne, "Jeff Immelt," Fast Company, July 2005, pp. 60–65; Rachel Layne, "GE's NBC Sale Brings Immelt Cash, Scrutiny," BusinessWeek, December 3, 2009; GE Annual Report, 2013. 216 In This Chapter, We Will Address the Following Questions 1. What factors should a company review before deciding to go abroad? (p. 217) 2. How can companies evaluate and select specific international markets to enter? (p. 219) 3. What are the major ways of entering a foreign market? (p. 225) 4. To what extent must the company adapt its products and marketing program to each foreign country? (p. 229) 6. How do marketers influence country-of-origin effects? (p. 238) MyMarketingLab™ Improve Your Grade! Over 10 million students improved their results using the Pearson MyLabs. Visit mymktlab.com for simulations, tutorials, and end-of-chapter problems. By skillfully combining quality, reliability, and style, Korean automaker Hyundai is finding success in markets all over the world. Source: HYUNDAI MOTOR COMPANY. Andy Glass Wyatt-Clarke & Jones. 217 The world has dramatically shrunk in recent years. Countries are increasingly multicultural, and products and services developed in one country are finding enthusiastic acceptance in others. A German businessman may wear an Italian suit to meet an English friend at a Japanese restaurant, who later returns home to drink Russian vodka and watch a U.S. movie on a Korean TV. Emerging markets that embrace capitalism and consumerism are especially attractive targets. Consider the rapid ascent of Hyundai.1 Tapping into Global Markets 8 Once synonymous with cheap and unreliable cars, Hyundai Motor Company has experienced a massive global transformation. In 1999, its new chairman, Mong-Koo Chung, declared that Hyun- dai would focus not on volume and market share but on quality instead. The company began to benchmark industry leader Toyota, adopted Six Sigma processes, organized product development cross-functionally, partnered more closely with suppliers, and increased quality oversight meetings. From a place near the bottom of J. D. Power's study of U.S. new vehicle quality in 2001—32nd of 37 brands—Hyundai zoomed to number 4 by 2009, surpassed only by luxury brands Lexus, Porsche, and Cadillac. Hyundai also transformed its marketing. Its groundbreaking 10-year warranty sent a strong signal of reliability and quality, and more consum- ers began to appreciate the value its stylish cars had to offer. The U.S. market was not the only one receiving at- tention from Hyundai and its younger, more affordable brand sibling, Kia. Hyundai is the second-largest carmaker in India. In Europe, it invested in a $1.4 billion factory in the Czech Republic and a new $7.5 research center near a famed German racetrack, and its market share has surpassed Toyota's. A joint venture with Beijing Automotive is targeting China. massive global transformation. In 1999, its new chairman, Mong-Koo Chung, declared that Hyun benchmark industry leader Toyota, adopted Six Sigma processes, organized product development Competing on a Global Basis Some companies have long been successful global marketers—firms like Shell, Bayer, and Toshiba have sold around the world for years. In luxury goods such as jewelry, watches, and handbags, where the addressable mar- ket is relatively small, a global profile is essential for firms like Prada, Gucci, and Louis Vuitton to profitably grow. But global competition is intensifying in more product categories as new firms make their mark on the interna- tional stage. In China's fast-moving mobile-phone market, Motorola found its once-promising share drop to the point where it was only the eighth-ranked competitor behind a slew of new entrants.2 To better understand the Chinese market, Starwood's CEO and top management team even temporarily relocated to Shanghai for five weeks in 2011. Sixty percent of guests in their hotels in China were native Chinese, and the firm anticipated a wave of Chinese travelers going abroad.3 Competition from developing-market firms is also heating up. Founded in Guatemala, Pollo Campero (Spanish for "country chicken") has launched more than 50 stores in different parts of the United States—including three as far north as Massachusetts—blending old favorites such as fried plantains and milky horchata drinks with Although opportunities to compete in international markets are significant, the risks can be high. Some companies sell- ing in global industries have no choice, however, but to interna- tionalize their operations. In this chapter, we review the major decisions in expanding into global markets. 218 PART 3 | ConneCTing WiTh CusTomeRs traditional U.S. fare such as grilled chicken and mashed potatoes.4 Tata has created a marketing powerhouse in India and set its sights on other parts of the world.5 TATA NaNO Tata Group, India's biggest conglomerate, is also its largest commercial vehicle maker. The company created a stir with the 2009 launch of its $2,500 Tata Nano, dubbed the "People's Car." Although impossibly low by Western standards, the Nano's price of 1 Indian lakh is three times India's annual per capita income. Looking somewhat like an egg on wheels, the Nano comfortably seats five while running a 33-horsepower engine that gets nearly 50 miles per gallon. Aiming to sell 250,000 units annually, Tata targeted the 7 million Indians who buy scooters and motorcycles every year, in part because they cannot afford a car. Huge market potential exists in the country, which has just seven automobiles per 1,000 people. Tata is also targeting other "bottom of the pyramid" markets such as Africa and Southeast Asia, and perhaps even parts of Eastern Europe and Latin America, as well as the U.S. market. Despite its positive features, the Nano got off to a rocky start in India due in part to the stigma attached to buying a "cheap" car. In a country where incomes have risen dramatically in recent years, some saw it as a glorified version of a tuk-tuk, the three-wheeled motorized rickshaw often seen on the streets of developing nations. Many low-income consumers decided to try to stretch their budgets to buy the Maruti-Suzuki Alto instead, with its bigger 800cc engine. On the other hand, some target customers who had never owned a car before were intimidated by Tata's glittering showrooms. After sales reached a low point in November 2012—only 3,500 cars sold against a target of 10,000—another makeover was announced—the third since launch in 2009, including a possible 800cc engine and a diesel option. Although some U.S. businesses may want to eliminate foreign competition through protective legislation, the better way to compete is to continuously improve products at home and expand into foreign markets. In a global industry, competitors' strategic positions in major geographic or national markets are affected by their overall global positions.6 A global firm operates in more than one country and captures R&D, production, logistical, mar- keting, and financial advantages not available to purely domestic competitors. Global firms plan, operate, and coordinate their activities on a worldwide basis. Otis Elevator uses door systems from France, small geared parts from Spain, electronics from Germany, and motor drives from Japan; systems integration happens in the United States. Although some countries have erected entry barriers or regulations, the World Trade Organization, consisting of 160 countries, continues to press for more free trade in international ser- vices and other areas.7 An interconnected world and global supply chains can have drawbacks, though, as the 2011 tsunami and earthquake in Japan vividly demonstrated.8 To sell overseas, many successful global U.S. firms have tapped into universal consumer values and needs— such as Nike with athletic performance, MTV with youth culture, and Coca-Cola with youthful optimism. These firms hire thousands of employees abroad and make sure their products and marketing activities are consistent with local sensibilities. Global marketing extends beyond products. Services represent the fastest-growing sector of the global economy and account for two-thirds of global output, one-third of global employment, and nearly 20 percent of global trade. Tata is attacking automobile markets all over the world with its aggressively inexpensive Nano or "People's Car." So ur ce : © N ei l M cA lli st er /A la m y TAPPing inTo globAl mARkeTs | chapter 8 219 For a company of any size or any type to go global, it must make a series of decisions (see Figure 8.1). We'll examine each of these decisions here.9 Deciding Whether to Go Abroad Most companies would prefer to remain domestic if their domestic market were large enough. Managers would not need to learn other languages and laws, deal with volatile currencies, face political and legal uncer- tainties, or redesign their products to suit different customer needs and expectations. Business would be easier and safer. Yet several factors can draw companies into the international arena: • Some international markets present better profit opportunities than the domestic market. • The company needs a larger customer base to achieve economies of scale. • The company wants to reduce its dependence on any one market. • The company decides to counterattack global competitors in their home markets. • Customers are going abroad and require international service. As cultures blend across countries, another benefit of global expansion is the ability to transfer ideas and products or services from one market into another market. Cinnabon discovered that products it developed for Central and South America were finding success in the United States, too, given its large Hispanic population.10 Reflecting the power of these forces, exports accounted for roughly 14 percent of U.S. GDP in 2013, more than double the figure 40 years ago.11 Before making a decision to go abroad, the company must also weigh several risks: • The company might not understand foreign preferences and could fail to offer a competitively attractive product. • The company might not understand the foreign country's business culture. • The company might underestimate foreign regulations and incur unexpected costs. • The company might lack managers with international experience. • The foreign country might change its commercial laws, devalue its currency, or undergo a political revolu- tion and expropriate foreign property. Some companies don't act until events thrust them into the international arena. The internationalization pro- cess typically has four stages:12 Stage 1: No regular export activities Stage 2: Export via independent representatives (agents) Stage 3: Establishment of one or more sales subsidiaries Stage 4: Establishment of production facilities abroad The first task is to move from stage 1 to stage 2. Most firms work with an independent agent and enter a nearby or similar country. Later, the firm establishes an export department to manage its agent relationships. Still later, it Deciding whether to go abroad Deciding which markets to enter Deciding how to enter the market Deciding on the marketing program Deciding on the marketing organization | Fig. 8.1 | Major Decisions in International Marketing Cinnabon found that some products developed for Central and South America found a receptive audience in the U.S. too. So ur ce : A ss oc ia te d Pr es s 220 PART 3 | ConneCTing WiTh CusTomeRs replaces agents with its own sales subsidiaries in its larger export markets. This increases investment and risk but also earning potential. Next, to manage subsidiaries, the company replaces the export department with an inter- national department or division. If markets are large and stable or the host country requires local production, the company will locate production facilities there. By this time, the firm is operating as a multinational and optimizing its sourcing, financing, manufacturing, and marketing as a global organization. According to some researchers, top management begins to focus on global opportunities when more than 15 percent of revenue comes from international markets.13 Deciding Which Markets to Enter In deciding to go abroad, the company needs to define its marketing objectives and policies. What proportion of international to total sales will it seek? Most companies start small when they venture abroad. Some plan to stay small; others have bigger plans. How ManY Markets to enter The company must decide how many countries to enter and how fast to expand. Typical entry strategies are the waterfall approach, gradually entering countries in sequence, and the sprinkler approach, entering many coun- tries simultaneously. Increasingly, firms—especially technology-intensive firms or online ventures—are born global and market to the entire world from the outset.14 Matsushita, BMW, General Electric, Benetton, and The Body Shop followed the waterfall approach. It allows firms to carefully plan expansion and is less likely to strain human and financial resources. When first-mover advantage is crucial and a high degree of competitive intensity prevails, the sprinkler approach is better. Microsoft sold more than 60 million licenses and upgrades of Windows 8 in the first 10 weeks after its October 26, 2012, global launch. Marketing spanned 42 countries with TV, print, and banner ads, outdoor posters, and branded entertainment. The main risk in the sprinkler approach is the substantial resources needed and the difficulty of planning entry strategies for many diverse markets.15 The company must also choose the countries to enter based on the product and on factors such as geography, income, population, and political climate. Competitive considerations come into play too. It may make sense to go into markets where competitors have already entered to force them to defend their market share as well as to learn from them how they are marketing in that environment. A critical consideration without question is market growth. Getting a toehold in a fast-growing market can be a very attractive option even if that market is likely to soon be crowded with more competitors.16 KFC has entered scores of countries as a pioneer by franchising its retail concept and making its marketing culturally relevant.17 KFC KFC is the world's largest fast-food chicken chain, serving more than 12 million customers at more than 4,600 restaurants in the United States and more than 18,000 restaurants in 120 countries and territories around the world. The company is world famous for its Original Recipe fried chicken—made with the same secret blend of 11 herbs and spices Colonel Harland Sanders perfected more than a half-century ago. In China, KFC is the largest, oldest, most popular, and fastest-growing quick-service restaurant chain, with more than 4,260 locations in 850 towns or cities, often enjoying healthy margins of 20 percent per store. The company has tailored its menu in China to local tastes with items such as the Dragon Twister, a wrap stuffed with chicken strips, Peking duck sauce, cucumbers, and scallions. KFC even has a Chinese mascot—a kid-friendly character named Chicky, which the company boasts has become "the Ronald McDonald of China." Like any emerging market, China does pose challenges to KFC. Sales there took a stumble early in 2013 when state-owned Chinese media accused the company of using local suppliers that gave their chickens exces- sive antibiotics to stimulate faster growth. A social media firestorm followed, eventually causing KFC to apologize for not having tighter controls. Supply chain problems have posed a different challenge in Africa, KFC's next growth target. Without enough domestic supply of chickens, the company has to import them, but that is illegal in Nigeria and Kenya. To overcome the supply problem in Nigeria, it added fish to the menu. By 2013, KFC had more than 1,000 restaurants in 17 countries in Africa. As it moved into more and more African markets, the company made sure to localize its menu—sell- ing Ugali, a type of porridge, in Kenya and jollof rice in Nigeria—and to showcase local culture on the walls and in the advertising. TAPPing inTo globAl mARkeTs | chapter 8 221 evaluatInG PotentIal Markets However much nations and regions integrate their trading policies and standards, each market still has unique features. Readiness for different products and services and attractiveness as a market depend on the market's demographic, economic, sociocultural, natural, technological, and political-legal environments. How does a company choose among potential markets to enter? Many companies prefer to sell to neighboring countries because they understand them better and can control their entry costs more effectively. It's not surpris- ing that the two largest U.S. export markets are Canada and Mexico or that Swedish companies first sold to their Scandinavian neighbors. At other times, psychic proximity determines choices. Given more familiar language, laws, and culture, many U.S. firms prefer to sell in Canada, England, and Australia rather than in larger markets such as Germany and France. Companies should be careful, however, in choosing markets according to cultural distance. Besides overlooking potentially better markets, they may only superficially analyze real differences that put them at a disadvantage.18 It often makes sense to operate in fewer countries, with a deeper commitment and penetration in each. In gen- eral, a company prefers to enter countries that have high market attractiveness and low market risk and in which it possesses a competitive advantage. Digicel has a very unusual market expansion strategy, an interesting twist on those market-entry criteria.19 DigiCeL In its 11-year existence, Jamaica-based Digicel has conquered politically unstable developing coun- tries such as Papua New Guinea, Haiti, and Tonga with mobile telecommunication products and services appealing to poor and typically overlooked consumers. The company strives for 100 percent population coverage with its networks, bringing affordable mobile service to local and rural residents who have never had the opportunity for coverage before and whose fierce loyalty helps protect Digicel from aggressive government interventions. It operates in 32 markets in the Caribbean, South Pacific, and Central and South America, serving 13 million customers. To be locally relevant, Digicel sponsors local cricket, rugby and other high-profile sports teams in each of these areas. Well-known champion Olympic sprinter Usain Bolt is the chief Digicel Brand Ambassador for various advertising and promotions across the region. The company also runs a host of community-based initiatives in each market through the educational, cultural, and social development programs of its Digicel Foundation. The company's marketing efforts in Fiji are instructive. Pitched in a fierce battle with incumbent Vodafone only two years after entry, Digicel Fiji even added a shade of light blue from the bottom of the Fiji national flag to its own red logo to reflect the company's pride in its contributions to Fijian life and sport, as reflected in its campaign, "Fiji Matters to Us." succeedInG In develoPInG Markets One of the sharpest distinctions in global marketing is between developed and developing or emerg- ing markets such as Brazil, Russia, India, China, and South Africa. These five countries have formed an KFC has become one of the world's biggest global brands by adapting its products appropriately and overcoming any local market obstacles. So ur ce : © J ef f G re en be rg 5 o f 6 /A la m y 222 PART 3 | ConneCTing WiTh CusTomeRs association dubbed "BRICS" (for Brazil, Russia, India, China, and South Africa).20 Another developing market with much economic and market- ing significance is Indonesia. Some have begun grouping that country and South Africa with Columbia, Vietnam, Egypt, and Turkey, dubbing them CIVETS to raise their profile.21 These markets offer many opportunities but also many challenges. The unmet needs of the developing world represent huge potential markets for food, clothing, shelter, consumer electronics, appliances, and many other goods. Many market leaders are relying on developing markets to fuel their growth. Nestlé estimates about 1 billion consumers in emerging markets have increased their incomes enough to afford its products within the next decade. The world's largest food company now gets about 40 percent of its revenue from emerging markets. Developing markets make up more than 50 percent of Unilever's sales and 30 percent of Kraft's total business, as well as more than 40 percent of its newly spun-off snack business, Mondelēz.22 Developing markets account for about 82 percent of the world's population, and 90 percent of future population growth is projected to occur there.23 Can marketers serve this huge population, which has much less purchasing power and lives in conditions ranging from mild deprivation to severe deficiency? Next we highlight some important developments in each of the BRICS coun- tries and Indonesia. BRAZIL24 Resource-rich Brazil is the biggest economy in Latin America and the sixth largest in the world. According to a study by Goldman Sachs, it will likely move into fourth place by 2050, meaning it would economically be larger than countries like Germany, Japan, and the United Kingdom. The 2014 World Cup in soccer and the 2016 Summer Olympics in Rio de Janeiro will put the world's spotlight on recent progress made by Brazil, though also highlighting some of the country's unease in huge investments in athletic events as opposed to addressing pressing domestic concerns such as education and infrastructure. Brazil is also the fifth-largest country globally in terms of digital users, with about 91 million people online, making digital strategies attractive. Social media are especially popular. Firms are increasingly using mobile mar- keting, with a strong local flavor in their marketing communications. Marketers are finding innovative ways to sell products and services to Brazil's poor and low-income residents. Nestlé Brazil boosted sales of Bono cookies 40 percent after shrinking the package from 200 to 140 grams and low- ering the price. One Unilever Brasil marketing vice president noted: There are common themes that resonate well with Brazilians—family life, happiness, optimism, and pride at being from Brazil. Brazilians are natural optimists, and notoriously upbeat, and the way brands engage with them must reflect this. Brazil experienced some "go-go" growth years in the 1960s and 1970s, when it was the world's second-fastest- growing large economy. As a result, it now boasts large and well-developed agricultural, mining, manufacturing, and service sectors. Brazilian firms that have succeeded internationally include aircraft manufacturer Embraer, sandal maker Havaianas, and brewer and beverage producer AmBev, which merged with Interbrew to form InBev. Brazil also differs from other emerging markets in being a full-blown democracy, unlike Russia and China, and it has no seri- ous disputes with neighbors, unlike India. A number of obstacles exist, however, that are popularly called custo Brasil ("the cost of Brazil"). The cost of transporting products eats up nearly 13 percent of Brazil's GDP, five percentage points more than in the United States. Unloading a container is twice as expensive as in India and takes three times longer than in China. Strict and costly labor laws have inspired a massive underground economy that McKinsey estimated accounted for as much as 40 percent of Brazil's gross domestic product, taking about half of all urban jobs. Crime and corruption are still problems. RussIA25 The 1991 splintering of the Soviet Union transformed Russia's isolated, centrally planned economy into a globally integrated, market-based economy. Russia is the largest exporter of natural gas, the second-largest exporter of oil, and the third-largest exporter of steel and primary aluminum. Reliance on commodities has its Digicel offers affordable mobile phone service and locally relevant marketing programs to overlooked consumers in developing markets. So ur ce : D ig ic el . K at ie T ay lo r, H ea d of M ar ke tin g; B er na rd P ra sa d, G ra ph ic D es ig ne r. TAPPing inTo globAl mARkeTs | chapter 8 223 downside, however. The country's economy was hammered in the recent recession by plunging commodity prices and the credit crunch. Russians make heavy use of social media, spending an average of 9.8 hours per visitor on a monthly basis, twice the world average, though Facebook has lagged behind local competitors. The company is engaging Russian devel- opers of apps, games, and similar tools to provide more local content. Russia has a dwindling workforce and poor infrastructure. The Organization for Economic Cooperation & Development (OECD) cautions that economic reforms have stagnated and ranks Russia as one of the most cor- rupt countries in the world. Many feel the government of Vladimir Putin has been unpredictable and difficult to work with. For these and other reasons, market entry can be daunting. To distribute in Russia, Cyclo Industries, a U.S. manufacturer of chemicals for the automotive industry, had to translate its labeling, determine how to competi- tively price its products, and develop specialized marketing plans. Logistical problems caused one of the company's marketers to note, "The roads are just terrible and there's no way to get from one part of Russia to another." Although it took the company more than a year to even establish a presence there, within six months the Russian market was contributing 10 percent of Cyclo's revenue. IndIA26 India's transformation over a generation has been staggering. Reforms in the early 1990s lowered trade barriers and liberalized capital markets, bringing booming investment and consumption. India boasts a lively democracy and a youthful population. The world's second most populous nation with 1.21 billion people, it is also one of the youngest large economies, with a median age of 25. In fact, one-quarter of the entire world's under-25 population lives in India. A strong economy has been matched by progress in literacy and access to financial services and modern tech- nology. India has fully embraced mobile technology; mobile phone density is approximately 75 percent of the population, of whom around 15 percent use their mobile devices to go online. Enjoying some of the lowest prices anywhere, one-third of Indian mobile subscribers live in rural areas. India's ascent opens a larger market for U.S. and Western goods. About 16 million, or 3 percent, of Indian con- sumers are high-earning targets of youth lifestyle brands connoting status and affluence, like luxury cars and shiny motorbikes, followed by clothing, food, entertainment, consumer durables, and travel. Opportunities abound for firms of all types. Indians drank an average of only 14 eight-ounce bottles of Coke in 2012, compared with an aver- age of 241 bottles in Brazil and 745 bottles in Mexico, leading Coca-Cola to announce a $5 billion investment over 2012–2020. As the seventh-largest country in size, however, India has important regional differences. Its 28 separate states each have their own policies and tax rules, 23 official languages, 1,500 dialects, and a multitude of faiths. Areas around Mumbai and Bangalore are richer and more highly literate, while poorer, less educated states lie in the east. Even the weather is significant to marketers. Cool winters in the north create dry skin conditions, in stark contrast to the humid climates of Mumbai and Chennai. Some Indian firms—such as Mittal, Reliance Group, Tata, Wipro, Infosys, and Mahindra—have achieved international success. Reliance touches the life of one in 10 Indians every day, and its worldwide customer base numbers 100 million. For all its opportunities, India struggles with poor infrastructure and public services—education, health, and water supply—and restrictive labor laws. The national government in New Delhi vows to spend $1 trillion on infrastructure over five years, although, as in many emerging markets, corruption remains a huge problem at vir- tually all levels of government. A complicated retail network has been slow to modernize, leading to distribution problems. ChInA27 China's 1.34 billion people have marketers scrambling to gain a foothold, and competition has heated up between domestic and international firms. Its 2001 entry into the World Trade Organization (WTO) eased China's manufacturing and investment rules and modernized retail and logistics industries. Greater competition in pricing, products, and channels resulted, though some industries remained fiercely protected or off-limits to foreigners altogether. Foreign businesses complain about subsidized competition, restricted access, conflicting regulations, opaque and seemingly arbitrary bureaucracy, and lack of protection for intellectual property; 90 percent of PC software is reportedly pirated in China. The Chinese government encourages partnerships with foreign companies, in part so that its firms can learn enough to become global powerhouses themselves. Nevertheless, opportunities exist. Although China is Nestlé's ninth-biggest market, the company sells half what it does in Brazil, despite China's having seven times the population. While it's the largest auto market in the world, at 60 vehicles per 1,000 people, China lags in car ownership at half the world average. PepsiCo has big plans for its 224 PART 3 | ConneCTing WiTh CusTomeRs food and beverage brands knowing that consumption of potato chips in China is around one small bag every two to four weeks, compared with 15 bags in the United States, and that the average Chinese buys a beverage 230 times per year while the average U.S. consumer buys 1,500. Selling in China means going beyond the big cities to the second- and third-tier cities, as well as to the 700 mil- lion potential consumers in small communities in the rural interior. Chengdu and Chongqing are two second-tier economic powerhouses in western China and experiencing much growth. Rural consumers can be challenging; they have lower incomes (the income ratio between China's coastal cities and rural interior is six to one), are less sophisticated, and often cling to local habits. China is also ethnically diverse—the banknote features eight lan- guages, including Arabic, Mongolian, and Tibetan. China's emerging urban middle class is active and discerning, demanding higher-quality products and variety. Although they number four times the U.S. population, Chinese consumers spend a fraction of what U.S. consum- ers do. China is now the world's top consumer of luxury consumer goods, with many Chinese consumers view- ing these as trophies of success. Luxury cars are the fastest-growing auto segment thanks to the swelling ranks of Chinese millionaires. Burberry's sales in China now almost match those in Europe as a whole. Competition among foreign firms is fierce as they attempt to get the upper hand in the fast-growing market. Walmart contends with Carrefour, General Motors fights Volkswagen, and Nike battles Adidas. In competing with local firms, many Western companies benefit from their reputation of quality, safety, and dependability with Chinese consumers, who have seen numerous scandals from their domestic companies. At the same time, Western companies need to be locally relevant. Starbucks has a localized menu of beverages particularly tailored for Chinese consumers—including a unique "East meets West" blend—from which local stores can choose. south AfRICA28 Although South Africa is a developed market, we include it here not only as an important market in its own right but also for its role as an access point to the African region; many international companies are using it as a launch pad for African expansion. The 2010 World Cup in soccer offered a chance to reexamine economic progress in South Africa and other African countries. Africa has experienced much change in recent years. Although political turmoil in Egypt, Tunisia, and Libya during the "Arab Spring" is a reminder of the instability that has plagued the continent and logistical and in- frastructure problems prevail, improvements in many other areas such as health, education, and social services paint a rosier picture of the continent's future, as do economic forecasts. McKinsey Global Institute estimates the number of African households with discretionary income—money available to spend on items other than food—is expected to increase by a robust 50 percent to 128 million people by 2020. Additional McKinsey research shows that many African consumers seek high-quality products and are brand conscious, "belying the view that the continent is a backwater where companies can sell second-rate merchandise." Unilever is finding success by tailoring products for African customers: affordable food, water-conserving washing powders, and grooming products to fit local tastes. Its best-selling Motions range of shampoos and conditioners were made especially for African hair and black skin. Some firms have worked for years to develop their African business. General Motors now sells in more than 50 African countries and has manufacturing facilities in South Africa, Egypt, and Kenya. Like any other continent, Africa is highly heterogeneous, and some experts emphasize that it should be seen as 53 separate and often very different countries. The Boston Consulting Group has dubbed eight of Africa's strongest economies the "African Lions": Algeria, Botswana, Egypt, Libya, Mauritius, Morocco, South Africa, and Tunisia.

Nestlé is especially bullish on Kenya, Ethiopia, Mozambique, Angola, and the Democratic Republic of the Congo. Although agriculture is the largest economic sector, telecommunications, energy, consumer products, and health care are experiencing the fastest growth. More than 650 million Africans had mobile phones by the end of 2011; more than 300 million of them are new subscribers since 2000. Mobile phones are used not just for talking but also as a platform to support daily living, playing a crucial role in health care and banking, for example, where extensive infrastructure does not exist. Two-thirds of adults used a mobile money service, with Vodafone and MTN leading the way. The Internet is playing an increasingly important marketing role in Africa, often accessed by mobile phones. IndonesIA29 Indonesia's reputation as a country historically struggling with natural disasters, terrorism, and economic uncertainty is quickly being replaced by a profile of political stability and economic growth. The fourth- largest country in the world and the largest Muslim country, given all its progress, Indonesia strikes many as ready to join the BRICS countries. It has become the third-fastest-growing economy in the region—behind India and China—largely on the basis of its 240 million consumers. By 2030, forecasts expect the number of middle-class Indonesians—those making between $2 and $20 per day—to increase from 131 million to 244 million and those in the "consumer class"—who make more than $3,600 per year—to increase from 45 million to 135 million. Marketers have found Indonesian consumers to be very brand conscious, an important preference given their rising incomes. TAPPing inTo globAl mARkeTs | chapter 8 225 An archipelago with more than 14,000 islands in a hot and humid climate, Indonesia does present challenges. Effective, efficient distribution is critical. Large importers have established distribution networks that allow them to reach beyond the one-third of the population living in the six or seven largest cities, but as in many developing countries, infrastructure can be lacking. Recent progress is noteworthy, however. Indonesia is L'Oréal's fastest-growing market in Asia-Pacific, leading the firm to build a plant there. IKEA has made a recent entry. With more than 20 percent of its Internet users hav- ing a Twitter account, Indonesia is the fifth-most active country on the microblogging site. MARketIng stRAtegIes foR develoPIng MARkets Successfully entering developing markets requires a special set of skills and plans and an ability to do a number of things differently and well.30 Consider how these companies pioneered ways to serve "invisible" consumers in these markets:31 • Grameenphone marketed cell phones to 35,000 villages in Bangladesh by hiring village women as agents who leased phone time to other villagers, one call at a time. • Colgate-Palmolive rolled into Indian villages with video vans that showed the benefits of toothbrushing. • Corporación GEO builds low-income housing in Mexico, featuring two-bedroom homes that are modular and expandable. These marketers capitalized on the potential of developing markets by changing their conventional marketing practices. Selling in developing areas can't be "business as usual." Economic and cultural differences abound, a marketing infrastructure may barely exist, and local competition can be surprisingly stiff.32 Many companies are tapping into the growing middle class in developing markets. Boston Consulting Group estimates there will be nearly a billion middle-class Chinese and Indians by 2020.33 Many will have aspirations that include the purchase of premium products and global brands.34 For example, when Unilever introduced TRESemmé in Brazil, it secured the support of 40 big retailers, courted fashion bloggers, distributed 10 million free samples, and launched the company's biggest-ever single-day online ad blitz, which eventually lured 1 million fans to the brand's Brazilian Facebook page. In under a year, sales of TRESemmé surpassed those of P&G shampoo stalwart Pantene in hypermarkets and drugstores, giving Unilever confidence to set its sights on India and Indonesia next.35 Because the needed marketing practices are more similar to those employed in developing markets, it is typically much easier to tap into the middle class in developing markets than to reach the 4 billion people at the "bottom of the pyramid." Although they may collectively be worth $3 trillion, each individual low-income con- sumer may have very little to spend. Satisfying the bottom of the pyramid also requires careful planning and execution. Conventional wisdom says a "low price, low margin, high volume" business model is the key to successfully appealing to lower-income mar- kets in developing markets. Although there are some good examples of such a strategy—Hindustan Unilever with Wheel detergent in India, for one—others have struggled. Procter & Gamble launched its Pur water-purification product in India, and although priced at only 10 cents a sachet, the product yielded a 50 percent margin. But after disappointing overall results, the company transitioned the brand to a philanthropic venture.36 Marketers are learning the nuances in marketing to a broader population in emerging markets, especially when cost reductions are difficult to realize because of the firm's established supply chain and when production methods and distribution strategy and price premiums are hard to command because of consumer price sensitivity. Getting the marketing equation right in developing markets can pay big dividends: • Smaller packaging and lower prices are often critical when income and space are limited. Unilever's four-cent sachets of detergent and shampoo were a big hit in rural India, where 70 percent of the population still lives.37 • The vast majority of consumers in emerging markets buy their products from tiny bodegas, stalls, kiosks, and mom-and-pop stores not much bigger than a closet, which Procter & Gamble calls "high-frequency stores." In India, food is largely purchased from the 12 million neighborhood mom-and-pop outlets called kirana stores. These thrive by offering convenience, credit, and even home delivery, though modern retailing is beginning to make inroads.38 • Nokia sent marketing, sales, and engineering staff from its entry-level phone group to spend a week in people's homes in rural China, Thailand, and Kenya to observe how they used phones. By developing rock- bottom-priced phones with just the right functionality, Nokia has retained market-share leadership in some parts of Africa and Asia despite being surpassed by other brands in parts of the developed world.39 Digital strategies will be crucial in developing markets given the rapid penetration of smart phones as more than a means of communication. One research study showed that social media is six times more important for brands in developing markets such as Indonesia and Thailand than it is in Japan or the United Kingdom. 40 226 PART 3 | ConneCTing WiTh CusTomeRs deveLoping and deveLoped MARkets Competition is also growing from companies based in developing markets. Wipro of India, Cemex of Mexico, HTC from Taiwan, and Petronas of Malaysia have emerged from developing markets to become strong multinationals selling in many countries. Often the key is to both develop a global business model and build a global brand that will effectively work in all the targeted markets.41 One strategy successfully employed by some companies from emerging markets is to identify neglected niches in larger markets. Mahindra has been selling U.S. farmers small tractors from its base in the U.S. assembly plants for more than 20 years. It has used its expertise in manufacturing small tractors to also expand into niche mar- kets for lawn care and golf course maintenance. Another strategy for going global is to acquire one or more firms in developed markets. India's Apollo Tyres acquired businesses in the Netherlands and South Africa. After Lenovo bought IBM's PC business for $1.25 billion in 2005, many other Chinese firms began to look overseas for possible acquisitions, leading one pundit to declare that the well-known phrase "Made in China" would soon be replaced by "Owned by China."43 On the other hand, many firms from developed markets are using lessons gleaned from developing mar- kets to better compete in their home or existing markets (recall the "bottom of the pyramid" discussion from Chapter 3). Product innovation has become a two-way street between developing and developed markets. The challenge is to think creatively about how marketing can fulfill the dreams of most of the world's popula- tion for a better standard of living.44 Many companies are betting they can do that. To feed a projected world population of 9 billion by 2050, and as- lysts estimate that food production globally must increase by 60 percent, a challenge John Deere is addressing.45 JOhN Deere John Deere's new 8R line was the first tractor line designed to accommodate the needs of different farmers in 130 countries worldwide. The 8R is powerful but agile and fuel-efficient, best suited for larger farms. But it is highly customizable to suit the needs of growers in developing markets like Brazil and Russia as much as the developed markets of the United States or Germany. From March 2011 to March 2012, customers ordered more than 7,800 different configurations of the 8R tractor. Deere has nine factories outside the United States in both developed and developing markets, including Germany, India, China, Mexico, and Brazil. Regional economic integration—the creation of trading agreements between blocs of countries—has intensified in recent years. This means companies are more likely to enter entire regions at the same time. Certain countries have formed free trade zones or economic communities—groups of nations organized to work toward common goals in the regulation of international trade. Deciding How to Enter the Market Once a company decides to target a particular country, it must choose the best mode of entry with its brands. Its broad choices are indirect exporting, direct exporting, licensing, joint ventures, and direct investment, shown in Figure 8.2. Each successive strategy entails more commitment, risk, control, and profit potential. Joint venture Direct investment Indirect exporting Licensing Co m m itm e n t, Ri sk , C on tr ol , a nd P ro fit P ot en tia l Direct exporting | Fig. 8.2 | Five Modes of Entry into Foreign Markets In India, millions of consumers buy their food from the ubiquitous kirana or "mom & pop" shops. So ur ce : © im ag eB RO K E R /A la m y TAPPing inTo globAl mARkeTs | chapter 8 227 Indirect and direct exPort Companies typically start with export, specifically indirect exporting—that is, they work through independent intermediaries. Domestic-based export merchants buy the manufacturer's products and then sell them abroad. Domestic-based export agents, including trading companies, seek and negotiate foreign purchases for a commis- sion. Cooperative organizations conduct exporting activities for several producers—often of primary products such as fruits or nuts—and are partly under their administrative control. Export-management companies agree to manage a company's export activities for a fee. Indirect export has two advantages. First, there is less investment: The firm doesn't have to develop an export department, an overseas sales force, or a set of international contacts. Second, there's less risk: Because inter- national marketing intermediaries bring know-how and services to the relationship, the seller will make fewer mistakes. Companies may eventually decide to handle their own exports. The investment and risk are somewhat greater, but so is the potential return. Direct exporting happens in several ways: • Domestic-based export department or division. A purely service function may evolve into a self- contained export department operating as its own profit center. • Overseas sales branch or subsidiary. The sales branch handles sales and distribution and perhaps warehous- ing and promotion as well. It often serves as a display and customer service center. • Traveling export sales representatives. Home-based sales representatives travel abroad to find business. • Foreign-based distributors or agents. These third parties can hold limited or exclusive rights to represent the company in that country. Many companies use direct or indirect exporting to "test the waters" before building a plant and manufacturing their product overseas. A company does not necessarily have to attend international trade shows if it can effectively use the Internet to attract new customers overseas, support existing customers who live abroad, source from inter- national suppliers, and build global brand awareness. Successful companies adapt their Web sites to provide country-specific content and services to their highest- potential international markets, ideally in the local language. Finding free information about trade and exporting has never been easier. Here are some places to start a search: www.trade.gov U.S. Department of Commerce's International Trade Administration www.exim.gov Export-Import Bank of the United States www.sba.gov U.S. Small Business Administration www.bis.doc.gov Bureau of Industry and Security, a branch of the Commerce Department Many states' export-promotion offices also have online resources and allow businesses to link to their sites. lIcensIng Licensing is a simple way to engage in international marketing. The licensor issues a license to a foreign company to use a manufacturing process, trademark, patent, trade secret, or other item of value for a fee or royalty. The licensor gains entry at little risk; the licensee gains production expertise or a well-known product or brand name. The licensor, however, has less control over the licensee than over its own production and sales facilities. If the licensee is very successful, the firm has given up profits, and if and when the contract ends, it might find it has created a competitor. To prevent this, the licensor usually supplies some proprietary product ingredients or com- ponents (as Coca-Cola does). But the best strategy is to lead in innovation so the licensee will continue to depend on the licensor. Licensing arrangements vary. Companies such as Hyatt and Marriott sell management contracts to owners of foreign hotels to manage these businesses for a fee. The management firm may have the option to purchase some share in the managed company within a stated period. In contract manufacturing, the firm hires local manufacturers to produce the product. Volkswagen has a contract agreement with the GAZ Group through 2019, whereby GAZ will build the Volkswagen Jetta, Skoda Octavia, and Skoda Yeti models in Nizhny Novgorod for the Russian market, with planned production volume of 110,000 vehicles per year.46 Toshiba, Hitachi, and other Japanese television manufacturers use contract manufac- turing to service the Eastern European market.47 228 PART 3 | ConneCTing WiTh CusTomeRs Contract manufacturing reduces the company's control over the process and risks loss of potential profits. However, it offers a chance to start faster, with the opportu- nity to partner with or buy out the local manufacturer later. Finally, a company can enter a foreign market through franchising, a more com- plete form of licensing. The franchisor offers a complete brand concept and operat- ing system. In return, the franchisee invests in and pays certain fees to the franchisor. Quick-service operators like McDonald's, Subway, and Burger King have franchised all over the world, as have service and retail companies such as 7-Eleven, Hertz, and Best Western Hotels.48 Joint ventures Historically, foreign investors have often joined local investors in a joint venture company in which they share ownership and control. To reach more geographic and technological markets and to diversify its investments and risk, GE Capital—GE's re- tail lending arm—views joint ventures as one of its "most powerful strategic tools." It has formed joint ventures with financial institutions in South Korea, Spain, Turkey, and elsewhere.49 Emerging markets, especially large, complex countries such as China and India, see much joint venture action. A joint venture may be necessary or desirable for economic or political reasons. The foreign firm might lack the financial, physical, or managerial resources to un- dertake the venture alone, or the foreign government might require joint ownership as a condition for entry. Joint ownership has drawbacks. The partners might disagree over investment, marketing, or other policies. One might want to reinvest earnings for growth, the other to declare more dividends. Joint ownership can also prevent a multinational company from carrying out specific manufacturing and marketing policies on a worldwide basis. The value of a partnership can extend far beyond increased sales or access to dis- tribution. Good partners share "brand values" that help maintain brand consistency across markets. For example, McDonald's fierce commitment to product and service standardization is one reason its retail outlets are so similar around the world. McDonald's handpicks its global partners one by one to find "compulsive achievers" who will put forth the desired effort. direct investMent The ultimate form of foreign involvement is direct ownership: The foreign company can buy part or full interest in a local company or build its own manufacturing or service facilities. Cisco had no presence in India before 2005, but it has already opened a second headquarters in Bangalore to take advantage of opportunities in India and other locations such as Dubai.50 If the market is large enough, direct investment offers distinct advantages. First, the firm secures cost econo- mies through cheaper labor or raw materials, government incentives, and freight savings. Second, the firm strengthens its image in the host country because it creates jobs. Third, the firm deepens its relationship with the government, customers, local suppliers, and distributors, enabling it to better adapt its products to the local envi- ronment. Fourth, the firm retains full control over its investment and can develop manufacturing and marketing policies that serve its long-term international objectives. Fifth, the firm ensures its access to the market in case the host country insists that locally purchased goods must have domestic content. The main disadvantage of direct investment is that the firm exposes a large investment to risks like blocked or devalued currencies, worsening markets, or expropriation. If the host country requires high severance pay for local employees, reducing or closing operations can be expensive. acquisition Rather than bringing their brands into certain countries, many companies choose to acquire local brands for their brand portfolio. Strong local brands can tap into consumer sentiment in a way international brands may find difficult. A good example of a company assembling a collection of "local jewels" is SABMiller.51 Companies such as Best Western have used franchise arrangements to cost-effectively enter markets all over the world. So ur ce : © T up un ga /Sh ut te rs to ck TAPPing inTo globAl mARkeTs | chapter 8 229 SabMiLLer From its isolated origins as the dominant brewery in South Africa, SABMiller now has a pres- ence in 75 different countries all over the world, thanks to a series of acquisitions including its 2002 purchase of Miller Brewing in the United States for $5.6 billion. The company is the world's second-largest beer maker, producing such well-known brands as Grolsch, Miller Lite, Peroni, Pilsner Urquell, South Africa's Castle Lager, and Australia's Victoria Bitter. Its global strategy, however, is in stark contrast to that of its main competitor. Anheuser-Busch InBev's strategy with Budweiser is to sell the brand all over the world, positioned as "The American Dream in a Bottle." SABMiller calls itself "the most local of global brewers" and believes the key to global success is pushing local brands that appeal to a home country's customs, attitudes, and traditions. The company relies on sociologists, anthropologists, and historians to find the right way to create "local intimacy" and also employs 10 analysts whose sole responsibility is segmentation re- search in different markets. Peru's Cusqueña brand "pays tribute to the elite standard of Inca craftsmanship." Romania's Timisoreana brand taps into its own 18th-century roots. In Ghana and other parts of Africa, cloudy Chibuku beer is priced at only 58¢ a liter to compete with home brews. When research revealed that many beer drinkers in Poland felt "no one takes us seriously," SABMiller launched a campaign for its Tyskie brand featuring foreigners lauding the brew and the Polish people. Deciding on the Marketing Program International companies must decide how much to adapt their marketing strategy to local conditions.52 At one extreme is a standardized marketing program worldwide, which promises the lowest costs; Table 8.1 summarizes some pros and cons. At the other extreme is an adapted marketing program in which the company, consistent with the marketing concept, believes consumer needs vary and tailors marketing to each target group. A good example of the latter strategy is Oreo cookies.53 tABLe 8.1 Globally Standardized Marketing Pros and Cons Advantages Economies of scale in production and distribution Lower marketing costs Power and scope Consistency in brand image Ability to leverage good ideas quickly and efficiently Uniformity of marketing practices Disadvantages Ignores differences in consumer needs, wants, and usage patterns for products Ignores differences in consumer response to marketing programs and activities Ignores differences in brand and product development and the competitive environment Ignores differences in the legal environment Ignores differences in marketing institutions Ignores differences in administrative procedures 230 PART 3 | ConneCTing WiTh CusTomeRs OreO In launching its Oreo brand of cookies worldwide, Kraft chose to adopt a consistent global positioning, "Milk's Favorite Cookie." Although not necessarily highly relevant in all countries, it did reinforce generally desirable asso- ciations like nurturing, caring, and health. To help ensure global understanding, Kraft created a brand book with a CD in an Oreo-shaped box that summarized brand management fundamentals—what needed to be common across countries, what could be changed, and what could not. At first, Kraft tried to sell the U.S. Oreo everywhere. When research showed cultural differences in taste preferences—Chinese found the cookies too sweet whereas Indians found them too bitter—new for- mulas were introduced across markets. In China, the cookie was made less sweet and with different fillings, such as green tea ice cream, grape-peach, mango-orange, and raspberry-strawberry. Indonesia has a chocolate-and-peanut variety; Argentina has banana and dulce de leche varieties. In an effort to reverse innovation, Kraft successfully introduced some of these new flavors into other countries. The company also tailors its marketing efforts to better connect with local con- sumers. One Chinese commercial has a child showing China's first NBA star Yao Ming how to dunk an Oreo cookie. Global sIMIlarItIes and dIfferences The vast penetration of the Internet, the spread of cable and satellite TV, and the global linking of telecommuni- cations networks have led to a convergence of lifestyles. Increasingly shared needs and wants have created global markets for more standardized products, particularly among the young middle class. Once the butt of jokes like "Why do you need a rear-window defroster on a Skoda? To keep your hands warm when pushing it," the Czech carmaker Skoda was acquired by VW, which invested to upgrade quality and image and offer an affordable option to lower-income consumers worldwide.54 At the same time, consumers can still vary in significant ways.55 • The median age is only about 26 or 27 in India and Mexico and 35 in China but about 43 to 45 in Japan, Germany, and Italy.56 • Doughnuts don't appeal to British consumers for breakfast, while Kenyans need to be convinced that cereal is a good option.57 • When asked whether they are more concerned with getting a specific brand rather than the best price, roughly two-thirds of U.S. consumers agreed, compared with about 80 percent in Russia and India.58 • The percentage of the population online varies wildly across countries: United Kingdom (85 percent), Japan (80 percent), United States (79 percent), Brazil (40 percent), China (34 percent), and India (7.5 percent). U.S. Internet users spend an average of 32 hours per month, compared with 16 hours globally.59 Consumer behavior may reflect cultural differences that can be pronounced across countries.60 Hofstede identi- fies four cultural dimensions that differentiate countries:61 1. Individualism versus collectivism—In collectivist societies, the self-worth of an individual is rooted more in the social system than in individual achievement (high collectivism: Japan; low: Nordic countries). 2. High versus low power distance—High power distance cultures tend to be less egalitarian (high: Russia; low: Nordic countries). SABMiller has assembled a diverse portfolio of iconic local beer brands from all over the world. So ur ce : A ss oc ia te d Pr es s TAPPing inTo globAl mARkeTs | chapter 8 231 3. Masculine versus feminine—This dimension measures how much the culture reflects assertive characteristics more often attributed to males versus nurturing characteristics more often attributed to females (highly mas- culine: Japan; low: Nordic countries). 4. Weak versus strong uncertainty avoidance—Uncertainty avoidance indicates how risk-aversive people are (high avoidance: Greece; low: Jamaica). Consumer behavior differences as well as historical market factors have led marketers to position brands differ- ently in different markets. • Heineken beer is a high-end super-premium offering in the United States but more middle-of-the-road in its Dutch home market. • Honda automobiles denote speed, youth, and energy in Japan and quality and reliability in the United States. • The Toyota Camry is the quintessential middle-class car in the United States but is at the high end in China, though in the two markets the cars differ only in cosmetic ways. MarketInG adaPtatIon Because of all these differences, most products require at least some adaptation.62 Even Coca-Cola is sweeter or less carbonated in certain countries. Rather than assuming it can introduce its domestic product "as is" in another coun- try, a company should review the following elements and determine which add more revenue than cost if adapted: • Product features • Labeling • Colors • Materials • Sales promotion • Prices • Advertising media • Brand name • Packaging • Advertising execution • Advertising themes The best global brands are consistent in theme but reflect significant differences in consumer behavior, brand development, competitive forces, and the legal or political environment.63 Oft-heard—and sometime modified— advice to marketers of global brands is to "Think Global, Act Local." In that spirit, HSBC was explicitly positioned for years as "The World's Local Bank." Take McDonald's, for example.64 It allows countries and regions to customize its basic layout and menu staples (see Table 8.2). In cities plagued by traffic tie-ups like Manila, Taipei, Jakarta, and Cairo, McDonald's delivers via fleets of motor scooters. tABLe 8.2 McDonald's Global Menu Variations Country Noteworthy Menu Items United States Big Mac, Chicken McNuggets, Filet-o-Fish, Egg McMuffin, Fries India McVeggie, Chicken Maharaja-Mac, McSpicy Paneer France Le McBaguette, Le Croque McDo, Le Royal Cheese Egypt Beef N Pepper, McArabia (grilled kofta), McFalafel Israel McKebab, McFalafel, Big New York and Big Texas (hamburgers) Japan Ebi Filet-O, Mega Teriyaki Burger, Bacon Egg and Lettuce Wrap, Shaka Shaka Chicken China Prosperity Burger, Taro Pie, McWings, McNuggets with Chili Garlic sauce Brazil Banana Pie, McNifico Bacon, Cheddar McMelt, Big Tasty Mexico Big Mac, McChicken, Fries, etc. Sources: "Discover McDonald's Around the World," www.aboutmcdonalds.com/mcd/country/map.html, accessed May 20, 2014; David Griner, "McDonald's 60-Second Meals in Japan Aren't Going So Well," adweek, January 7, 2013; Richard Vines and Caroline Connan, "McDonald's Wins Over French Chef with McBaguette Sandwich," www.bloomberg.com, January 15, 2013; Ségolène Poirier, "McDonald's Brazil Has Big Plans," The Rio Times, April 8, 2013; Susan Postlewaite, "McDonald's McFalafel a Hit with Egyptians, Advertising Age, June 19, 2001. 232 PART 3 | ConneCTing WiTh CusTomeRs Companies must make sure their brands are relevant to consumers in every market they enter. After highlight- ing how Amazon and Netflix are entering global markets, we next consider some specific issues in developing global product, communications, pricing, and distribution strategies.65 aMazON aND NeTFLix Two of the most successful marketing companies in recent years, Amazon and Netflix are going overseas to fuel their rapid growth, but they are finding themselves butting heads as they both seek to become the market leader for digital movie downloads. The older of the two, Amazon has been overseas longer, finding much success in the United Kingdom, Germany, and other parts of Europe. Amazon has also moved into Asia-Pacific but has found progress in emerging markets like China to be slow. Amazon acquired LoveFilm, a European DVD rental and movie-streaming business, to compete with Netflix. It also opened up a massive media R&D center in London and expanded its Android-based Appstore distribution business to cover 200 countries. Netflix has expanded aggressively overseas, starting with Canada in 2010 and Latin America in 2011 and then the United Kingdom, Ireland, and Nordic coun- tries in 2012. Although its international base of more than 6 million consumers is formidable, the company faces heavy local and regional competition and has to negotiate with local broadcasters and distributors for its streaming TV licenses. To attract new users, Netflix is emphasizing breadth of content and original programming such as the Emmy- and Golden Globe–winning political thriller "House of Cards." Global Product strateGies Developing global product strategies requires knowing what types of products or services are easily standardized and what are appropriate adaptation strategies. pRoduCt stAndARdIZAtIon Some products cross borders without adaptation better than others, and consumer knowledge about new products is generally the same everywhere because perceptions have yet to be formed. Many leading Internet brands—such as Google, eBay, Twitter, and Facebook—made quick progress in overseas markets. High-end products also benefit from standardization because quality and prestige often can be marketed similarly across countries. Culture and wealth factors influence how quickly a new product takes off in a coun- try, though adoption and diffusion rates are becoming more alike across countries over time. Food and beverage marketers find it more challenging to standardize, of course, given widely varying tastes and cultural habits.66 A company may emphasize its products differently across markets. In its medical-equipment business, Philips traditionally reserved higher-end, premium products for developed markets and emphasized products with basic functionality and affordability in developing markets. Increasingly, however, the company is designing, engineer- ing, and manufacturing locally in emerging markets like China and India.67 Amazon has found great success moving into global markets, especially in Europe. So ur ce : © R ob er t M or ris /A la m y TAPPing inTo globAl mARkeTs | chapter 8 233 With a growing middle class in many emerging markets, many firms are assembling product portfolios to tap into different income segments. French food company Danone has many high-end healthy products, such as Dannon yogurt, Evian water, and Bledina baby food, but it also sells much lower priced products targeting consumers with "dollar-a-day" food budgets. In Indonesia, where average per-capita income is about US$10 a day, the company sells Milkuat, a 6 month shelf life flavored milk beverage. Danone now generates over 60% of its sales from growth markets (i.e. all except Western Europe), up from just 23% in 1996 (source: www.danone.com).68 pRoduCt AdAptAtIon stRAtegIes Warren Keegan has distinguished five product and communications adaptation strategies (see Figure 8.3).69 We review the product strategies here and the communication strategies in the next section. Straight extension introduces the product in the foreign market without any change. Tempting because it requires no additional R&D expense, manufacturing retooling, or promotional modification, the strategy has been successful for cameras, consumer electronics, and many machine tools. In other cases, it has been a disaster. Campbell Soup Company lost an estimated $30 million introducing condensed soups in England; consumers saw expensive small-sized cans and didn't realize water needed to be added. Product adaptation alters the product to meet local conditions or preferences. Flexible manufacturing makes it easier to do so on several levels. • A company can produce a regional version of its product. Dunkin' Donuts has been introducing more region- alized products, such as Coco Leche donuts in Miami and sausage kolaches in Dallas.70 • A company can produce a country version. Kraft blends different coffees for the British (who drink coffee with milk), the French (who drink it black), and Latin Americans (who want a chicory taste). • A company can produce a city version—for instance, a beer to meet Munich's or Tokyo's tastes. • A company can produce different retailer versions, such as one cof- fee brew for the Migros chain store and another for the Cooperative chain store, both in Switzerland. Some companies have learned adaptation the hard way. The Euro Disney theme park, launched outside Paris in 1992, was harshly criti- cized as an example of U.S. cultural imperialism that ignored French customs and values, such as the serving of wine with meals. As one Do Not Change Product Adapt Product Product Co m m un ic at io ns Develop New Product Straight extension Product adaptation Product invention Communication adaptation Do Not Change Communications Adapt Communications Dual adaptation | Fig. 8.3 | Five International Product and Communication Strategies Milkuat is a popular milk beverage in Indonesia due to its six month shelf life and affordability. So ur ce : G ro up e D an on e. U se d w ith p er m is si on . 234 PART 3 | ConneCTing WiTh CusTomeRs Euro Disney executive noted, "When we first launched, there was the belief that it was enough to be Disney. Now we realize our guests need to be welcomed on the basis of their own culture and travel habits." Renamed Disneyland Paris, the theme park eventually became one of Europe's biggest tourist attraction—even more popular than the Eiffel Tower—by implementing a number of local touches.71 On the other hand, South Korea's LG Electronics has found success in India by investing in local design and manufacturing facilities that helped it develop TVs with higher-quality speakers, refrigerators with brighter colors and smaller freezers, and microwaves with one-touch "Indian menu" functions, all reflecting Indian preferences.72 Product invention creates something new. It can take two forms: • Backward invention reintroduces earlier product forms well adapted to a foreign country's needs. A big hit in developing markets in Latin America, Mexico, and the Middle East, the powdered drink Tang has added local flavors like lemon pepper and soursop. Although its U.S. sales have fallen precipitously, its worldwide sales doubled from 2006 to 2011.73 • Forward invention creates a new product to meet a need in another country. Less-developed countries need low-cost, high-protein foods. Companies such as Quaker Oats, Swift, and Monsanto have researched their nu- trition requirements, formulated new foods, and developed advertising to gain product trial and acceptance. BRAnd eLeMent AdAptAtIon When they launch products and services globally, marketers may need to change certain brand elements.74 Even a brand name may require a choice between phonetic and semantic translations.75 When Clairol introduced the "Mist Stick," a curling iron, in Germany, it found that mist is slang for manure. In China, Coca-Cola and Nike have both found sets of Chinese characters that sounds broadly like their names but also offer some relevant meaning at the same time ("Can Be Tasty, Can Be Happy" and "Endurance Conquer," respectively).76 Numbers and colors can take on special meaning in certain countries. The number four is considered unlucky throughout much of Asia because the Japanese word sounds like "death." Some East Asian buildings skip not only the fourth floor but often every floor that has a four in it (14, 24, 40–49). Nokia doesn't release phone models with the number four in them in Asia.77 Purple is associated with death in Burma and some Latin American nations, white is a mourning color in India, and in Malaysia green connotes disease. Red generally signifies luck and prosperity in China.78 Brand slogans or ad taglines sometimes need to be changed too:79 • When Coors put its brand slogan "Turn it loose" into Spanish, some read it as "suffer from diarrhea." • A laundry soap ad claiming to wash "really dirty parts" was translated in French-speaking Quebec to read "a soap for washing private parts." • Perdue's slogan—"It takes a tough man to make a tender chicken"—was rendered into Spanish as "It takes a sexually excited man to make a chicken affectionate." Table 8.3 lists some other famous marketing mistakes in this area. tABLe 8.3 Classic Blunders in Global Marketing • Hallmark cards failed in France, where consumers dislike syrupy sentiment and prefer writing their own cards. • Philips became profitable in Japan only after reducing the size of its coffeemakers to fit smaller kitchens and its shavers to fit smaller hands. • Coca-Cola withdrew its big two-liter bottle in Spain after discovering that few Spaniards owned refrigerators that could accommodate it. • General Foods' Tang initially failed in France when positioned as a substitute for orange juice at breakfast. The French drink little orange juice and almost never at breakfast. • Kellogg's Pop-Tarts failed in Britain because fewer homes have toasters than in the United States and the product was too sweet for British tastes. • The U.S. campaign for Procter & Gamble's Crest toothpaste initially failed in Mexico. Mexicans did not care as much about the decay-prevention benefit nor the scientifically oriented advertising appeal. • General Foods squandered millions trying to introduce packaged cake mixes to Japan, where only 3 percent of homes at the time were equipped with ovens. • S. C. Johnson's wax floor polish initially failed in Japan. It made floors too slippery for a culture where people do not wear shoes at home. TAPPing inTo globAl mARkeTs | chapter 8 235 Global coMMunIcatIon strateGIes Changing marketing communications for each local market is a process called communication adaptation. If it adapts both the product and the communications, the company engages in dual adaptation. Consider the message. The company can use one message everywhere, varying only the language and name.80 General Mills positions its Häagen-Dazs brand in terms of "indulgence," "affordable luxury," and "intense sensuality." To communicate that message, it ran a 30-second TV spot called "Sensation," with the tag- line "Anticipated Like No Other" in markets all over the world, substituting only the voice-over in the language of each country.81 The second possibility is to use the message and creative theme globally but adapt the execution. GE's global "Ecomagination" ad campaign substitutes creative content in Asia and the Middle East to reflect cultural interests there. Even in the high-tech space, local adaptations may be necessary.82 The third approach, which Coca-Cola and Goodyear have used, consists of developing a global pool of ads from which each country selects the most appropriate. Finally, some companies allow their country managers to create country-specific ads—within guidelines, of course. The challenge is to make the message as compelling and effec- tive as in the home market. gLOBAL AdAptAtIons Companies that adapt their communications wrestle with a number of challenges. They first must ensure their communications are legally and culturally acceptable. U.S. toy makers were surprised to learn that in many countries (Norway and Sweden, for example), no TV ads may be directed at children under 12. To foster a culture of gender neutrality, Sweden also now prohibits "sexist" advertising—a commercial that spoke of "cars for boys, princesses for girls" was criticized by government advertising regulators.83 A number of countries are taking steps to eliminate "super skinny" and airbrushed models in ads. Israel has banned "underweight" models from print and TV ads and runway shows. Models must have a body-mass index—a calculation based on height and weight—of greater than 18.5. According to that BMI standard, a female model who is 5 feet, 8 inches tall can weigh no less than 119 pounds.84 Firms next must check their creative strategies and communication approaches for appropriateness. Comparative ads, though acceptable and even common in the United States and Canada, are less frequent in the United Kingdom, unacceptable in Japan, and illegal in India and Brazil. The EU seems to have a very low tolerance for comparative advertis- ing and prohibits bashing rivals in ads. Companies also must be prepared to vary their messages' appeal.85 In advertising its hair care products, Helene Curtis observed that middle-class British women wash their hair frequently, Spanish women less so. Japanese women avoid overwashing for fear of removing protective oils. Language can vary too, whether the local language, another such as English, or some combination.86 When the buyer is at an earlier stage of development in its new market, con- sumer education may need to accompany brand development efforts. In launch- ing Chik shampoo in rural areas of South India, where hair is washed with soap, CavinKare showed people how to use the product through live "touch and feel" demonstrations and free sachets at fairs.87 Personal selling tactics may need to change too. The direct, no-nonsense ap- proach favored in the United States ("let's get down to business" and "what's in it for me") may not work as well in Europe or Asia as an indirect, subtle approach.88 Global PrIcInG strateGIes Multinationals selling abroad must contend with price escalation and transfer prices (and dumping charges). As part of those issues, two particularly thorny pricing problems are gray markets and counterfeits. pRICe esCALAtIon A Gucci handbag may sell for $120 in Italy and $240 in the United States. Why? Gucci must add the cost of transportation, tariffs, importer margin, wholesaler margin, and retailer margin to its factory price. Price escalation from these added costs and currency-fluctuation risk might require the price to be two to five times as high for the manufacturer to earn the same profit. Marketers in Israel must observe the body-mass restrictions prohibiting overly-skinny models. So ur ce : A ss oc ia te d Pr es s 236 PART 3 | ConneCTing WiTh CusTomeRs Companies have three choices for setting prices in different countries: 1. Set a uniform price everywhere. PepsiCo might want to charge $1 for Pepsi everywhere in the world, but then it would earn quite different profit rates in different countries. Also, this strategy would make the price too high in poor countries and not high enough in rich countries. 2. Set a market-based price in each country. PepsiCo would charge what each country could afford, but this strategy ignores differences in the actual cost from country to country. It could also motivate intermediaries in low-price countries to reship their Pepsi to high-price countries.89 3. Set a cost-based price in each country. Here PepsiCo would use a standard markup of its costs everywhere, but this strategy might price it out of markets where its costs are high. When companies sell their wares over the Internet, price becomes transparent and price differentiation between countries declines. Consider an online training course. Whereas the cost of a classroom-delivered day of training can vary significantly from the United States to France to Thailand, the price of an online-delivered day would be similar everywhere. In another new global pricing challenge, countries with overcapacity, cheap currencies, and the need to export aggressively have pushed their prices down and devalued their currencies. Sluggish demand and reluctance to pay higher prices make selling in these markets difficult. Here is what IKEA did to compete in China's challenging pricing market.90 IKea When the Swedish home furnishings giant IKEA opened its first store in Beijing in 2002, local stores were selling copies of its designs at a fraction of IKEA's prices. The only way to lure China's frugal customers was to drasti- cally slash prices. Western brands in China usually price products such as makeup and running shoes 20 percent to 30 percent higher than in their other markets, both to make up for China's high import taxes and to give their products added cachet. By stocking its Chinese stores with Chinese-made products, IKEA has been able to slash prices as low as 70 per- cent below their level outside China. Western-style showrooms provide model bedrooms, dining rooms, and family rooms and suggest how to furnish them, an important consideration given home ownership in China has gone from practically zero in 1995 to about 70 percent today. Young couples are especially drawn to IKEA's stylish, functional modern styles. Although it still contends with persistent knockoffs, IKEA maintains sizable stores in eight locations and aims to have 15 by 2015. tRAnsfeR pRICes A different problem arises when one unit charges another unit in the same company a transfer price for goods it ships to its foreign subsidiaries. If the company charges a subsidiary too high a price, it may end up paying higher tariff duties, though it may pay lower income taxes in the foreign country. If the company charges its subsidiary too low a price, it can be accused of dumping, charging either less than its costs or less than it charges at home in order to enter or win a market. Various governments are watching for abuses and often force companies to charge the arm's-length price—the price charged by other competitors for the same or a similar product. When the U.S. Department of Commerce finds evidence of dumping, it can levy a dumping tariff on the guilty company. After much debate over government support for clean-energy products, the United States chose to set anti-dumping duties of 44.99 percent to 47.59 percent on wind towers produced in China and Vietnam and sent to the United States.91 gRAy MARkets Many multinationals are plagued by the gray market, which diverts branded products from authorized distribution channels either in-country or across international borders. Often a company finds some enterprising distributors buying more than they can sell in their own country and reshipping the goods to another country to take advantage of price differences. Gray markets create a free-rider problem, making legitimate distributors' investments in supporting a manufacturer's product less productive and selective dis- tribution systems more intensive to reduce the number of gray market possibilities. They harm distributor relationships, tarnish the manufacturer's brand equity, and undermine the integrity of the distribution channel. They can even pose risks to IKEA has gone to great lengths to draw customers into its showrooms and establish a market presence in China. So ur ce : © Z U M A P re ss , I nc ./ A la m y TAPPing inTo globAl mARkeTs | chapter 8 237 consumers if the product is damaged, relabeled, obsolete, without warranty or support, or just counterfeit. Because of their high prices, prescription drugs are often a gray market target, though U.S. government regulators are looking at the industry more closely after fake vials of Riche Holding AG's cancer drug Avastin were shipped to U.S. doctors.92 Multinationals try to prevent gray markets by policing distributors, raising their prices to lower-cost distributors, or altering product characteristics or service warranties for different countries.93 3Com successfully sued several companies in Canada (for a total of $10 million) for using written and oral misrepresentations to get deep dis- counts on 3Com networking equipment. The equipment, worth millions of dollars, was to be sold to a U.S. educa- tional software company and sent to China and Australia but instead ended up back in the United States. One research study found that gray market activity was most effectively deterred when penalties were severe, when manufacturers were able to detect violations or mete out punishments in a timely fashion, or both.94 CounTeRfeIt pRoduCts As companies develop global supply chain networks and move production farther from home, the chance for corruption, fraud, and quality-control problems rises.95 Sophisticated overseas factories seem able to reproduce almost anything. Name a popular brand, and chances are a counterfeit version of it exists somewhere in the world.96 Counterfeiting is estimated to cost more than a trillion dollars a year. U.S. Customs and Border Protection seized $1.26 billion worth of goods in 2012; the chief culprits were China (81 percent) and Hong Kong (12 per- cent), and the chief products were apparel and accessories, followed by electronics, optical media, handbags and wallets, and watches and jewelry.97 At the Summer Olympics in London in 2012, the Egyptian Olympic team even started to buying fake Nike gear from a Chinese distributor because of the country's dire economic situation. Once Nike found out what had happened, the company donated all the necessary training and village wear to the team.98 Fakes take a big bite of the profits of luxury brands such as Hermès, LVMH Moët Hennessy Louis Vuitton, and Tiffany, but faulty counterfeits can literally kill people. Cell phones with counterfeit batteries, fake brake pads made of compressed grass trimmings, and counterfeit airline parts pose safety risks to consumers. Pharmaceuticals are especially worrisome. Toxic cough syrup in Panama, tainted baby formula in China, and fake teething powder in Nigeria have led to the deaths of children in recent years.99 Virtually every product is vulnerable. Microsoft estimates that four-fifths of Windows OS software in China is pirated.100 As one anti-counterfeit consultant observed, "If you can make it, they can fake it." Defending against counterfeiters is a never-ending struggle; some observers estimate that a new security system can be just months old before counterfeiters start nibbling at sales again.101 The Internet has been especially problematic. After surveying thou- sands of items, LVMH estimated 90 percent of Louis Vuitton and Christian Dior pieces listed on eBay were fakes, prompting the firm to sue. Manufacturers are fighting back online with Web-crawling software that detects fraud and automatically warns apparent viola- tors without the need for any human intervention. Acushnet, maker of Titleist golf clubs and balls, shut down 75 auctions of knockoff gear in one day with a single mouse click.102 Web-crawling technology searches for counterfeit storefronts and sales by detecting domain names similar to legitimate brands and unau- thorized Internet sites that plaster brand trademarks and logos on their homepages. It also checks for keywords such as cheap, discount, authen- tic, and factory variants, as well as colors that products were never made in and prices that are far too low. Global distribution strateGies Too many U.S. manufacturers think their job is done once the product leaves the factory. They should instead note how the product moves within the foreign country and take a whole-channel view of distribution- ing products to final users. ChAnnel entRy Figure 8.4 shows three links between the seller and the final buyer. In the first, seller's international marketing headquarters, the export department or international division makes decisions about channels and other marketing activities. The second Nike came to the rescue of the Egyptian Olympic team after they admit- ted buying fake Nike gear because of the country's budgetary problems. So ur ce : A ss oc ia te d Pr es s 238 PART 3 | ConneCTing WiTh CusTomeRs link, channels between nations, gets the products to the borders of the foreign nation. Decisions made in this link include the types of intermediaries (agents, trading companies), type of transportation (air, sea), and financing and risk management. The third link, channels within foreign nations, gets products from their entry point to final buyers and users. When multinationals first enter a country, they prefer to work with local distributors with good local knowl- edge, but friction often arises later.103 The multinational complains that the local distributor doesn't invest in business growth, doesn't follow company policy, and doesn't share enough information. The local distributor complains of insufficient corporate support, impossible goals, and confusing policies. The multinational must choose the right distributors, invest in them, and set up performance goals to which they can both agree.104 ChAnnel diffeRenCes Distribution channels across countries vary considerably. To sell consumer products in Japan, companies must work through one of the most complicated distribution systems in the world. They sell to a general wholesaler, who sells to a product wholesaler, who sells to a product-specialty wholesaler, who sells to a regional wholesaler, who sells to a local wholesaler, who finally sells to retailers. All these distribution levels can make the consumer's price double or triple the importer's price. Taking these same consumer products to tropical Africa, the company might sell to an import wholesaler, who sells to several jobbers, who sell to petty traders (mostly women) working in local markets. Another difference is the size and character of retail units abroad. Large-scale retail chains dominate the U.S. scene, but much foreign retailing is in the hands of small, independent retailers. Millions of Indian retailers operate tiny shops or sell in open markets. Markups are high, but the real price comes down through haggling. Incomes are low, most homes lack storage and refrigeration, and people shop daily for whatever they can carry home on foot or bicycle. In India, people often buy one cigarette at a time. Breaking bulk remains an important function of intermediaries and helps perpetuate long channels of distribution, a major obstacle to the expansion of large-scale retailing in developing countries. Nevertheless, retailers are increasingly moving into new global markets, offering firms the opportunity to sell across more countries and creating a challenge to local distributors and retailers.105 France's Carrefour, Germany's Aldi and Metro, and United Kingdom's Tesco have all established global positions. But even some of the world's most successful retailers have had mixed success abroad. Despite concerted efforts and earlier success in Latin America and China, Walmart had to withdraw from both the German and South Korean markets after heavy losses. Walmart now earns a quarter of its revenue overseas by being more sensitive to local market needs in different countries.106 Country-of-Origin Effects Country-of-origin perceptions are the mental associations and beliefs triggered by a country. Government offi- cials want to strengthen their country's image to help domestic marketers that export and to attract foreign firms and investors. Marketers want to use positive country-of-origin perceptions to sell their products and services. buIldInG countrY ImAGes Governments now recognize that the images of their cities and countries affect more than tourism and have im- portant value in commerce. Foreign businesses can boost the local economy, provide jobs, and improve infrastruc- ture. Image can also help sell products. For its first global ad campaign for Infiniti luxury cars, Nissan chose to tap into its Japanese roots and association with Japanese-driven art and engineering.107 Countries are being marketed like any other brand. New Zealand has developed concerted marketing programs both to sell its products outside the country, via its New Zealand Way program, and to attract tourists, by show- ing the dramatic landscapes featured in The Lord of the Rings film trilogy. Both efforts reinforce the image of New Zealand as fresh and pure. The launch of the new Hobbit trilogy in November 2012—with the fictional Middle Earth again being depicted by New Zealand—has attracted a new wave of visitors.108 Another film affected the image of a country in an entirely different way. Kazakhstan has a positive story to tell given its huge size, rich natural resources, and rapid modernization. British comedian Sacha Baron Cohen's mock documentary Borat, however, portrayed the country in a sometimes crude and vulgar light, and the character Borat was sexist, homophobic, and anti-Semitic. Despite that fact, Yerzhan Kazykhanov, Kazakhstan's foreign min- ister, observed: "After this film, the number of visas issued to Kazakhstan grew by ten times. This is a big victory for us, and I thank Borat for attracting tourists to Kazakhstan." Evidently, enough publicity about the country sur- rounded the film to boost its awareness.109 A strong company that emerges as a global player can do wonders for a country's image. Before World War II, Japan had a poor image, which the success of Sony with its Trinitron TV sets and of Japanese automakers Honda, Nissan, and Toyota helped change. Relying partly on the global success of Nokia, Finland campaigned to enhance Final buyers Seller Channels between nations Seller's international marketing headquarters Channels within foreign nations | Fig. 8.4 | Whole- Channel Concept for International Marketing TAPPing inTo globAl mARkeTs | chapter 8 239 its image as a center of high-tech innovation. Current events can also shape the image of a country. When public unrest and violent protests surrounded the government's austerity program to address Greece's debt crisis, tourist bookings there dropped as much as 30 percent.110 consuMer PercePtIons of countrY of orIGIn Global marketers know that buyers hold distinct attitudes and beliefs about brands or products from different countries.111 These perceptions can be attributes in decision making or influence other attributes in the process ("If it's French, it must be stylish"). Coca-Cola's success against local champion Jianlibao in China was partly due to its symbolic values of U.S. modernity and affluence.112 The mere fact that a brand is perceived as successful on a global stage—whether it sends a quality signal, taps into cultural myths, or reinforces a sense of social responsibility—may lend credibility and respect.113 Research studies have found the following:114 • People are often ethnocentric and favorably predisposed to their own country's products, unless they come from a less developed country. • The more favorable a country's image, the more prominently the "Made in…" label should be displayed. • The impact of country of origin varies with the type of product. Consumers want to know where a car was made, but not the lubricating oil. • Certain countries enjoy a reputation for certain goods: Japan for automobiles and consumer electronics; the United States for high-tech innovations, soft drinks, toys, cigarettes, and jeans; France for wine, perfume, and luxury goods. • Sometimes country-of-origin perception can encompass an entire country's products. In one study, Chinese consumers in Hong Kong perceived U.S. products as prestigious, Japanese products as innovative, and Chinese products as cheap. Marketers must look at country-of-origin perceptions from both a domestic and a foreign perspective. In the domestic market, these perceptions may stir consumers' patriotic notions or remind them of their past. As international trade grows, consumers may view certain brands as symbolically important in their own cultural identity or as playing an important role in keeping jobs in their own country. More than three-quarters of U.S. consumers said that, given a choice between a product made at home and an identical one made abroad, they would choose the U.S. product.115 Patriotic appeals underlie marketing strategies all over the world, but they can lack uniqueness and even be overused, especially in economic or political crises. Many small businesses tap into community pride to emphasize their local roots. To be successful, these need to be clearly local and offer appealing product and service offerings.116 Sometimes consumers don't know where brands come from. In surveys, they routinely guess that Heineken is German and Nokia is Japanese (they are Dutch and Finnish, respectively). Few consumers know Häagen-Dazs and Estée Lauder originated in the United States. With outsourcing and foreign suppliers, it's hard to know what the country of origin really is anyway. Only 65 percent of the content of a Ford Mustang comes from the United States or Canada, whereas the Toyota Avalon is assem- bled in Georgetown, Kentucky, with one of the highest percentages of local components, 85 percent. Foreign automakers The government of New Zealand markets the country as fresh and pure, a message reinforced by the use of stunning New Zealand scenery in many popular films such as the Hobbit trilogy. So ur ce : © M ov ie st or e Co lle ct io n Lt d/ A la m y 240 PART 3 | ConneCTing WiTh CusTomeRs are pouring money into North America, investing in plants, suppliers, and dealerships as well as design, testing, and research centers. But what makes a product more "American"—having a higher percentage of North American compo- nents or creating more jobs in North America? The two measures may not lead to the same conclusion.117 Many brands have gone to great lengths to weave themselves into the cultural fabric of their foreign markets. One Coca-Cola executive tells of a young child visiting the United States from Japan who commented to her parents on seeing a Coca-Cola vending machine—"Look, they have Coca-Cola too!" As far as she was concerned, Coca- Cola was a Japanese brand. Haier is another global brand working hard to establish local roots in other countries.118 haier As China's leading maker of refrigerators, washing machines, and air conditioners, Haier was well known and respected in its home market for its well-developed product lines. For rural customers, Haier sold extra-durable washing machines that could wash vegetables as well as clothes; for urban customers, it made smaller washing machines to fit in tiny apartments. In 1999, the company set its sights on a much bigger goal: building a truly global brand. Unlike most other Asian companies that chose to enter Asian markets before considering Western markets, Haier decided to first target the United States and Western Europe. The company felt success there would enable greater success elsewhere in the world. In the United States, Haier established a beachhead by targeting a neglected market—mini-fridges for homes, offices, dorms, and hotels—and securing distribution at Walmart, Target, Home Depot, and other top retailers. After some initial success, the company began to sell higher-end refrigerators and other appliances such as air conditioners, washing machines, and dishwashers. Its goal is to be seen as a "localized U.S. brand," not an "imported Chinese brand." Thus, Haier invested $40 million in a manufacturing plant in South Carolina and became a marketing partner with the National Basketball Association. The firm's global marketing efforts have paid off. By 2012, 30 percent of U.S. households owned a Haier product, and Haier is now the world's top-selling home appliance brand. Interestingly, even when the United States has not been that popular, its brands typically have been. As one marketer noted, "Regardless of all the problems we have as a country, we are still looked to as the consumer capital of the world."119 cies. It must determine whether to market in a few or many countries and rate candidate countries on three criteria: market attractiveness, risk, and competitive advantage. 3. Developing countries offer a unique set of opportunities and risks. The "BRICS" countries—Brazil, Russia, India, Summary 1. Despite shifting borders, unstable governments, foreign- exchange problems, corruption, and technological pirating, companies selling in global industries need to internationalize their operations. 2. Upon deciding to go abroad, a company needs to define its international marketing objectives and poli- China's large appliance maker Haier has made being seen as a localized U.S. brand one of their top business priorities. So ur ce : W an g ju n qd - Im ag ei ch ni na TAPPing inTo globAl mARkeTs | chapter 8 241 MyMarketingLab go to mymktlab.com to complete the problems marked with this icon as well as for additional auto-graded and assisted-graded writing questions. Applications Marketing Debate Is the World Coming Closer Together? Many social commentators maintain that youth and teens are becoming more alike across countries over time. Oth- ers, though not disputing the fact, point out that differences between cultures at even younger ages by far exceed the similarities. Take a position: People are becoming more and more similar versus The differences between people of differ- ent cultures far outweigh their similarities. Marketing Discussion Country of Origin Think of some of your favorite brands. Do you know where they come from? Where and how are they made or provided? Do you think knowing these answers would affect your perceptions of quality or satisfaction? only read them. In response to users' comments and ideas, the company added more features to help organize the on- going communication on Twitter, including the @ sign in front of usernames, direct messages, and the retweet. Web de- veloper Chris Messina suggested adding a hashtag (#) sym- bol to help organize categories of conversation or search for tweets on a common topic. For example, #Grammys will bring a user to conversations about the Grammys. Twitter grew slowly during its first year, but things started to heat up in 2007 when the company set up 51-inch plasma screens around the grounds of the South by Southwest interactive festival and broadcast tweets sent by attendees. Overnight, activity increased from 20,000 to 60,000 tweets a day. Another milestone came on January 15, 2009, when US Airways flight 1549 landed safely on the Hudson River in New York City during an emergency. An eyewitness on a commuter ferry broke the news worldwide when Marketing Excellence >> Twitter Few companies have had such a vast global impact in so short a time as Twitter. The online social networking com- pany was the brainchild of Jack Dorsey, Evan Williams, Biz Snow, and Noah Glass back in 2005. Dorsey thought it would be revolutionary if people could send a text to one number and have it broadcast to all their friends: "I want to make something so simple, you don't even think about it, you just write." The code name for the concept was "twttr," which eventually morphed into Twitter. Dorsey sent the first Twitter message on March 21, 2006. At the heart of Twitter are tweets, text messages lim- ited to 140 characters. Dorsey once stated, "One could change the world with 140 characters." Registered users can send and receive tweets, while unregistered users can China, and South Africa—plus other significant markets such as Indonesia are a top priority for many firms. 4. Modes of entry are indirect exporting, direct exporting, licensing, joint ventures, and direct investment. Each succeeding strategy entails more commitment, risk, control, and profit potential. 5. In deciding how much to adapt their marketing programs at the product level, firms can pursue a strategy of straight extension, product adaptation, or product invention. At the communication level, they may choose communica- tion adaptation or dual adaptation. At the price level, firms may encounter price escalation, dumping, gray markets, and discounted counterfeit products. At the distribution level, firms need to take a whole-channel view of distribut- ing products to the final users. Firms must always consider the cultural, social, political, technological, environmental, and legal limitations they face in other countries. 6. Country-of-origin perceptions can affect consumers and businesses alike. Managing those perceptions to best advantage is a marketing priority. 242 PART 3 | ConneCTing WiTh CusTomeRs L'Oréal's rise to be the world's largest beauty and cosmetics company with early international expansion is credited to Sir Lindsay Owen-Jones, who transformed L'Oréal from a small French business into an international cosmetics phenomenon with strategic vision and precise brand management. During his almost 20 years as CEO and chairman, Owen-Jones divested weak brands, in- vested heavily in product innovation, acquired ethnically diverse brands, and expanded into markets no one had dreamed of, including China, South America, and the former Soviet Union. His quest was to achieve diversity and "meet the needs of men and women around the globe, and make beauty products available to as many people as possible." Today, L'Oréal focuses on five areas of beauty ex- pertise: skin care, hair care, makeup, hair coloring, Marketing Excellence >> L'Oréal When it comes to globalizing beauty, no one does it better than L'Oréal. The company was founded in Paris more than 100 years ago by a young chemist, Eugene Schueller, who sold his patented hair dyes to local hairdressers and salons. By the 1930s, Schueller had invented beauty products like suntan oil and the first mass-marketed shampoo. Today, the company has evolved into the world's largest beauty and cosmetics company, with distribution in 130 countries, 27 global brands, and more than $30.8 billion in sales. he snapped a photo of the plane on the river, wrote a tweet, and sent it to his 170 followers. The tweet and #Flight1549 went viral within minutes and proved that Twitter had transformed the way we get news. Seth Mnookin, MIT's Associate Director of Science Writing, explained why Twitter has been so revolution- ary in media: "What the advent of television or radio did was give a small group of people a new way to reach the masses. And this essentially is doing the same thing, for the masses." Twitter captures and records history in real time with eyewitness accounts, pictures, and thoughts. Celebrities and sports figures started to embrace Twitter in 2009. Perhaps the most influential early adopter was Ashton Kutcher, the first celebrity to reach 1 mil- lion followers. Katy Perry, Barack Obama, Lady Gaga, and Justin Bieber are now among the most followed Tweeters, with tens of millions of followers each. By 2011, Twitter had expanded across seven differ- ent countries and languages. The medium had a huge impact on the Arab Spring, when millions demanded the overthrow of oppressive Middle East regimes. Bahraini protester Maryam Al-Khawaja explained that in many countries Twitter is about entertainment, but in the Middle East and North Africa, it can make the difference between life and death. Twitter gave activists a means to share accurate and uncensored information, connect with like- minded individuals, and organize street operations at unheard-of speed. Hussein Amin, professor of mass communication at the American University in Cairo, explained, "[Social networks] for the first time provided activists with an opportunity to quickly disseminate infor- mation while bypassing government restrictions." During the 2012 U.S. presidential election, Twitter had enormous impact on campaigns and communications with voters. In fact, the most popular tweet of 2012 was "Four more years," posted by Barack Obama after he won the reelection. It was retweeted almost 1 million times. Twitter went public in November 2013 and raised $2.1 billion in the second-biggest Internet IPO in history (Facebook raised $16 billion in 2012). Its global impact has grown so great that it operates in 35 languages and 70 percent of users live outside the United States. In 2014, 500 million users were registered on Twitter, 250 million were active, and more than 400 million tweets were posted each day around the globe. Today, people use Twitter for many reasons, includ- ing promoting a brand or company, raising money for charities, breaking news, following favorite celebrities, or, as Dorsey said, changing the world. Twitter describes itself as a global platform for public self-expression and conversation in real time. Mark Burnett, the producer of shows like The Voice, Survivor, and The Apprentice, stated, "Twitter actually is the real time, water cooler conversation of young America." The company's ultimate goal is to reach everyone in the world. Questions 1. Discuss Twitter's global impact since its inception. 2. Who are Twitter's biggest competitors? How does Twitter differ from other social media companies? 3. What marketing challenges does Twitter face as it continues to expand its brand globally? Sources: Dom Sagolla, 140Characters.com, January 30, 2009; Nicholas Carlson, "The Real History of Twitter," BusinessInsider.com, April 13, 2011; Victor Luckerson, "The 7 Most Important Moments in Twitter History," Time, November 7, 2013; Drew Olanoff, "Twitter's Social Impact Can't Be Measured, but It's the Pulse of the Planet," Techcrunch.com, January 15, 2013; Heesun Wee, "Twitter May Be Going Public but Can It Make Money?" CNBC, November 5, 2013; Elizabeth Kricfalusi, "The Twitter Hashtag: What Is It and How Do You Use It?" Tech for Luddites, November 12, 2013; Julianne Pepitone, "#WOW! Twitter Soars 73% in IPO," CNNMoney.com, November 7, 2013; "#Twitter Revolution," CNBC.com, August 7, 2013; David Wolman, "Facebook, Twitter Help the Arab Spring Blossom," Wired, April 16, 2013; David Jolly, Mark Scott, and Eric Pfanner, "Twitter's IPO Plan Has an International Focus," New York Times, October 5, 2013; Saleem Kassim, "Twitter Revolution: How the Arab Spring Was Helped by Social Media," PolicyMic.com, July 3, 2012; www.twitter.com. TAPPing inTo globAl mARkeTs | chapter 8 243 and perfume. Its brands fall into four different groups: (1) Consumer Products (52 percent of sales, includes mass- market brands such as Maybelline and high-technology products sold at competitive prices through mass-market retailing chains), (2) L'Oréal Luxe (27 percent of sales, in- cludes prestigious brands like Ralph Lauren perfume that are available only in premium stores, department stores, or specialty stores), (3) Professional Products (14 per- cent of sales, includes brands such as Redken designed specifically for professional hair salons), and (4) Active Cosmetics (7 percent of sales, includes dermo-cosmetic products sold at pharmacies, drugstores, and medi-spas). L'Oréal believes precise target marketing—hitting the right audience with the right product and message at the right place—is crucial to its global success. Owen-Jones explained, "Each brand is positioned on a very precise [market] segment, which overlaps as little as possible with the others." The company has built its portfolio primarily by pur- chasing local beauty companies all over the world, revamp- ing them with strategic direction, and expanding the brand into new areas through its powerful marketing arm. For ex- ample, L'Oréal instantly became a player (with 20 percent market share) in the growing ethnic hair care industry when it purchased and merged the U.S. companies Soft Sheen Products in 1998 and Carson Products in 2000. L'Oréal believed the competition had overlooked this category be- cause it was fragmented and misunderstood. Backed by a deep portfolio of brands and products, SoftSheen-Carson is now the market leader in the ethnic hair care industry. L'Oréal invests significant money and time in its 22 local research centers around the world. The com- pany spends 3.5 percent of annual sales on R&D, more than one percentage point above the industry average, researching and understanding the needs of local consumers in each region. Understanding the unique beauty routines and needs of different cultures, climates, traditions, and physiologies is critical to L'Oréal's global success. Hair and skin greatly dif- fer from one part of the world to another, so L'Oreal listens to and observes consumers across the globe to gather a deep understanding of their beauty needs. L'Oréal scientists study consumers in laboratory bathrooms and in their own homes, sometimes achieving scientific beauty milestones. In Japan, for example, L'Oréal developed Wondercurl mascara that was specially formulated to curl Asian women's eyelashes, which are usually short and straight. Within three months, Wondercurl mascara had become Japan's number-one selling mascara, and young women lined up outside stores to buy it. L'Oréal continued to research the market and developed nail polish, blush, and other cos- metics aimed at this new Asian generation. L'Oréal believes its future lies in emerging areas such as Asia, Africa, and Latin America, where it expects to find millions of new customers over the next few years. Marc Menesguen, L'Oréal's managing director-strategic marketing, explained, "Our projection for 2020 is that 50% to 60% of sales will be coming from [emerging] markets." As a result, new research centers have popped up in these countries, and the company is working ag- gressively on understanding these consumers' needs and developing beauty products to satisfy them. Well known for its 1973 advertising tagline— "Because I'm Worth It"—L'Oréal is the leader in beauty products around the world. The company spends ap- proximately $5 billion in advertising each year, making it the third-largest advertiser. As Gilles Weil, its head of luxury products, explained, "You have to be local and as strong as the best locals, but backed by an international image and strategy." Questions 1. Review L'Oréal's brand portfolio. What role have local and global marketing, smart acquisitions, and R&D played in growing those brands? 2. What are the keys to successful local product launches like Maybelline's Wondercurl in Japan? 3. What's next for L'Oréal on a global level? Who are its biggest competitors? If you were CEO, how would you sustain the company's global leadership? Sources: Andrew Roberts, "L'Oréal Quarterly Sales Rise Most since 2007 on Luxury Perfume," Bloomberg BusinessWeek, April 22, 2010; Richard Tomlinson, "L'Oréal's Global Makeover," Fortune, September 30, 2002; Doreen Carvajal, "International Business; Primping for the Cameras in the Name of Research," New York Times, February 7, 2006; Richard C. Morais, "The Color of Beauty," Forbes, November 27, 2000; Jack Neff, "How L'Oreal Zen Master Menesguen Shares Best Practices around the Globe," Advertising Age, June 11, 2012; L'Oréal, www.loreal.com. 244 In This Chapter, We Will Address the Following Questions 1. In what ways can a company divide the consumer market into segments? (p. 246) 2. How should business markets be segmented? (p. 261) 3. How should a company choose the most attractive target markets? (p. 262) 4. What are the requirements for effective segmentation? (p. 263) 5. What are the different levels of market segmentation? (p. 263) LinkedIn offers a variety of relevant value-added online services to its target market of career-minded professionals. Source: © PSL Images/Alamy MyMarketingLab™ Improve Your Grade! Over 10 million students improved their results using the Pearson MyLabs. Visit mymktlab.com for simulations, tutorials, and end-of-chapter problems. Building Strong BrandsPart 4 Chapter 9 Identifying Market Segments and Targets Chapter 10 Crafting the Brand Positioning Chapter 11 Creating Brand Equity Chapter 12 Addressing competition and driving growth 245 To compete more effectively, many companies are now embracing target marketing. Instead of scattering their marketing efforts, they're focusing on those consumers they have the greatest chance of satisfying. Effective target marketing requires that marketers: 1. Identify and profile distinct groups of buyers who differ in their needs and wants (market segmentation). 2. Select one or more market segments to enter (market targeting). 3. For each target segment, establish, communicate, and deliver the right benefit(s) for the company's market offering (market positioning). Market segmentation, targeting, and positioning are known as the "STP" of marketing. This chapter will focus on the first two steps; Chapter 10 discusses the third step. Chapters 11 and 12 describe how effective market segmentation, targeting, and positioning can build strong brands that grow over time and withstand competitive attacks. Companies cannot connect with all customers in large, broad, or diverse markets. They need to identify the market segments they can serve effectively. This decision requires a keen understand- ing of consumer behavior and careful strategic thinking about what makes each segment unique and different. Identifying and uniquely satisfying the right market segments are often the key to marketing success. LinkedIn has built an online powerhouse by fulfilling the needs of career-minded professionals.1 Identifying Market Segments and Targets 9 LinkedIn was the first major social network to issue an IPO, after being one of the first entries into social networking back in 2003. The company targeted a different audience than most other social networks, establishing itself as the premier professional networking site with a vision "…to create economic opportunity for every professional in the world." Also separating LinkedIn from other social networks is the fact that it has diverse revenue streams, driven by three distinct customer segments: job seekers who buy premium subscriptions with various special services; advertisers large and small who rely on its marketing solutions unit; and, supporting its largest and fastest-growing business, corporate recruiters who buy special search tools from its talent solutions unit. At the time of its IPO on May 19, 2011, LinkedIn had amassed 100 million registered users, adding a new one literally every second and a million every 10 days, half of them outside the United States. These users were attracted by the ability to manage their careers by networking with other profes- sionals, seeking and sharing insights, and searching for jobs if the need arose. Like most online services, LinkedIn strives to engage users on its site for as long as possible through continually improved content and new features. Toward that goal, the company acquired SlideShare, a presentation-hosting site, and Pulse, a news-reading application, and also launched Talent Pipeline to help recruiters manage their leads. LinkedIn sees much growth from its mobile users, who in 2013 ac- counted for more than 30 percent of unique visits to the site, leading to a complete makeover of its apps for easier navigation and greater personalization. Although LinkedIn's well-targeted and positioned brand has led to much initial success, competition looms from other online giants, such as Facebook, and from established professional network services overseas, such as Viadeo SA in Europe and elsewhere. LinkedIn was the first major social network to issue an IPO, after being one of the first entries into social networking back in 2003. The company targeted a different audience than most other social networks, establishing itself as the premier professional networking site with a vision "…to create 246 PART 4 | Building STRong BRAndS Bases for Segmenting Consumer Markets Market segmentation divides a market into well-defined slices. A market segment consists of a group of customers who share a similar set of needs and wants. The marketer's task is to identify the appropriate number and nature of market segments and decide which one(s) to target. We use two broad groups of variables to segment consumer markets. Some researchers define segments by looking at descriptive characteristics—geographic, demographic, and psychographic—and asking whether these segments exhibit different needs or product responses. For example, they might examine the differing attitudes of "professionals," "blue collars," and other groups toward, say, "safety" as a product benefit. Other researchers define segments by looking at behavioral considerations, such as consumer responses to ben- efits, usage occasions, or brands, then seeing whether different characteristics are associated with each consumer-response segment. For example, do people who want "quality" rather than "low price" in an automobile differ in their geographic, demographic, and/or psychographic makeup? Regardless of which type of segmentation scheme we use, the key is adjusting the marketing program to rec- ognize customer differences. The major segmentation variables—geographic, demographic, psychographic, and behavioral segmentation—are summarized in Table 9.1. GeoGraphIc SeGmentatIon Geographic segmentation divides the market into geographical units such as nations, states, regions, counties, cities, or neighborhoods. The company can operate in one or a few areas, or it can operate in all but pay attention to local variations. In that way it can tailor marketing programs to the needs and wants of local customer groups in trading areas, neighborhoods, even individual stores. In a growing trend called grassroots marketing, marketers concentrate on making such activities as personally relevant to individual customers as possible. Much of Nike's initial success came from engaging target consumers through grassroots marketing efforts such as sponsorship of local school teams, expert- conducted clinics, and provision of shoes, clothing, and equipment to young athletes. Citibank provides different mixes of banking services in its branches depending on neighborhood demographics. Retail firms such as Starbucks, Costco, Trader Joe's, and REI have all found great success emphasizing local marketing initiatives, and other types of firms have also jumped into the action.2 More and more, regional marketing means marketing right down to a specific zip code. Many companies use mapping software to pinpoint the geographic locations of their customers, learning, say, that most customers are within a 10-mile radius of the store and are further concentrated within certain zip+4 areas. By mapping the densest areas, the retailer can rely on customer cloning, assuming the best prospects live where most of the customers already come from. Some approaches combine geographic data with demographic data to yield even richer descriptions of consumers and neighborhoods. Nielsen Claritas has developed a geoclustering approach called PRIZM (Potential Rating Index by Zip Markets) NE that classifies more than half a million U.S. residential neighbor- hoods into 14 distinct groups and 66 distinct lifestyle segments called PRIZM Clusters.3 The groupings take into consideration 39 factors in five broad catego- ries: (1) education and affluence, (2) family life cycle, (3) urbanization, (4) race and ethnicity, and (5) mobility. The neighborhoods are broken down by zip code, zip+4, or census tract and block group. The clusters have descriptive titles such as Blue Blood Estates, Winner's Circle, Hometown Retired, Shotguns and Pickups, and Back Country Folks. The inhabitants in a cluster tend to lead similar lives, drive similar cars, have similar jobs, and read similar magazines. Table 9.2 has examples of three PRIZM clusters. Geoclustering captures the increasing diversity of the U.S. population. PRIZM has been used to answer questions such as: Which neighborhoods or zip codes contain our most valuable customers? How deeply have we already penetrated these segments? Which distribution channels and promotional media work best in reaching our target clusters in each area? Barnes & Nobles placed its stores So ur ce : D en ve r P os t v ia G et ty Im ag es Outdoor goods retailer REI emphasizes local marketing initiatives in engaging its customers. idenTifying MARkeT SegMenTS And TARgeTS | chapter 9 247 Table 9.1 Major Segmentation Variables for Consumer Markets Geographic region Pacific Mountain, West North Central, West South Central, East North Central, East South Central, South Atlantic, Middle Atlantic, New England City or metro size Under 5,000; 5,000–20,000; 20,000–50,000; 50,000–100,000; 100,000–250,000; 250,000–500,000; 500,000–1,000,000; 1,000,000–4,000,000; 4,000,000+ Density Urban, suburban, rural Climate Northern, southern Demographic age Under 6, 6–11, 12–17, 18–34, 35–49, 50–64, 64+ Family size 1–2, 3–4, 5+ Family life cycle Young, single; young, married, no children; young, married, youngest child under 6; young; married, youngest child 6 or older; older, married, with children; older, married, no children under 18; older, single; other Gender Male, female Income Under $10,000; $10,000–$15,000; $15,000–$20,000; $20,000–$30,000; $30,000–$50,000; $50,000–$100,000; $100,000+ Occupation Professional and technical; managers, officials, and proprietors; clerical sales; craftspeople; forepersons; operatives; farmers; retired; students; homemakers; unemployed Education Grade school or less; some high school; high school graduate; some college; college graduate; post college Religion Catholic, Protestant, Jewish, Muslim, Hindu, other Race White, Black, Asian, Hispanic, Other Generation Silent Generation, Baby Boomers, Gen X, Millennials (Gen Y) Nationality North American, Latin American, British, French, German, Italian, Chinese, Indian, Japanese Social class Lower lowers, upper lowers, working class, middle class, upper middles, lower uppers, upper uppers Psychographic lifestyle Culture-oriented, sports-oriented, outdoor-oriented Personality Compulsive, gregarious, authoritarian, ambitious Behavioral occasions Regular occasion, special occasion Benefits Quality, service, economy, speed User status Nonuser, ex-user, potential user, first-time user, regular user Usage rate Light user, medium user, heavy user Loyalty status None, medium, strong, absolute Readiness stage Unaware, aware, informed interested, desirous, intending to buy Attitude toward product Enthusiastic, positive, indifferent, negative, hostile 248 PART 4 | Building STRong BRAndS where the "Money & Brains" segment hangs out. Hyundai successfully targeted a promotional campaign to neigh- borhoods where the "Kids & Cul-de-Sacs," "Bohemian Mix," and "Pool & Patios" could be found.4 Marketing to microsegments has become possible even for small organizations as database costs decline, soft- ware becomes easier to use, and data integration increases. Going online to reach customers directly can open a host of local opportunities, as Yelp has found out.5 YeLP Founded in 2004, Yelp.com wants to "connect people with great local businesses" by targeting consum- ers who seek or want to share reviews of local businesses in 96 markets around the world. Almost two-thirds of the Web site's millions of vetted online reviews are for restaurants and retailers. Yelp was launched in San Francisco, where monthly parties with preferred users evolved into a formal program, Yelp Elite, now used to launch the service into new cities. The company's recently introduced mobile app allows it to bypass the Internet and connect with consumers directly; almost 50 percent of searches on the site now come from its mobile platform. Yelp generates revenue by selling designated Yelp Ads to local merchants via hundreds of salespeople. The local advertising business is massive—estimated to be worth between $90 billion and $130 billion—but relatively untapped given that many local businesses are not that tech-savvy. Sheryl Sandberg, COO of Facebook (a Yelp competitor), calls local advertising the Internet's "Holy Grail." Local businesses also benefit from Yelp—several research studies have demonstrated the potential revenue payback from having reviews of their businesses on the site. Table 9.2 Examples of PRIZM Clusters • Young Digerati. Young Digerati are the nation's tech-savvy singles and couples living in fashionable neighbor- hoods on the urban fringe. Affluent, highly educated, and ethnically mixed, they live in areas typically filled with trendy apartments and condos, fitness clubs and clothing boutiques, casual restaurants, and all types of bars— from juice to coffee to microbrew. • Beltway Boomers. One segment of the huge baby boomer cohort—college-educated, upper-middle-class, and home-owning—is Beltway Boomers. Like many of their peers who married late, these boomers are still raising children in comfortable suburban subdivisions and pursuing kid-centered lifestyles. • The Cosmopolitans. Educated, midscale, and multiethnic, the Cosmopolitans are urbane couples in America's fast-growing cities. Concentrated in a handful of metros—such as Las Vegas, Miami, and Albuquerque—these households feature older homeowners, empty nesters, and college graduates. A vibrant social scene surrounds their older homes and apartments, and residents love the nightlife and enjoy leisure-intensive lifestyles. Source: Nielsen, www.claritas.com. Yelp has attracted scores of consumers and advertisers with its carefully vetted online reviews of local businesses. So ur ce : © D on S m et ze r/ A la m y idenTifying MARkeT SegMenTS And TARgeTS | chapter 9 249 Those who favor such localized marketing see national advertising as wasteful because it is too "arm's length" and fails to address local needs. Those against local marketing argue that it drives up manufacturing and market- ing costs by reducing economies of scale and magnifying logistical problems. A brand's overall image might be diluted if the product and message are too different in different localities. DemoGraphIc SeGmentatIon One reason demographic variables such as age, family size, family life cycle, gender, income, occupation, education, religion, race, generation, nationality, and social class are so popular with marketers is that they're often associated with consumer needs and wants. Another is that they're easy to measure. Even when we de- scribe the target market in nondemographic terms (say, by personality type), we may need the link back to demographic characteristics in order to estimate the size of the market and the media we should use to reach it efficiently. Here's how marketers have used certain demographic variables to segment markets. age and life-CyCle STage Consumer wants and abilities change with age. Toothpaste brands such as Crest and Colgate offer three main lines of products to target kids, adults, and older consumers. Age segmentation can be even more refined. Pampers divides its market into prenatal, new baby (0–5 months), baby (6–12 months), toddler (13–23 months), and preschooler (24 months+). Indirect age effects also operate for some products. One study of kids ages 8–12 found that 91 percent decided or influenced clothing or apparel buys, 79 percent grocery purchases, and 54 percent vacation choices, while 14 percent even made or swayed vehicle purchase decisions.6 Nevertheless, age and life cycle can be tricky variables. The target market for some products may be the psycho- logically young. To target 21-year-olds with its boxy Element, which company officials described as a "dorm room on wheels," Honda ran ads depicting sexy college kids partying near the car at a beach. So many baby boomers were attracted to the ads, however, that the average age of Element buyers turned out to be 42! With baby boom- ers seeking to stay young, Honda decided the lines between age groups were getting blurred. When sales fizzled, Honda decided to discontinue sales of the Element. When it was ready to launch a new subcompact called the Fit, the firm deliberately targeted Gen Y buyers as well as their empty-nest parents.7 liFe STage People in the same part of the life cycle may still differ in their life stage. Life stage defines a person's major concern, such as going through a divorce, going into a second marriage, taking care of an older parent, deciding to cohabit with another person, buying a new home, and so on. As Chapter 6 noted, these life stages present opportunities for marketers who can help people cope with the accompanying decisions. For example, the wedding industry attracts marketers of a vast range of products and services. No surprise—the average U.S. couple spends almost $27,000 on their wedding (see Table 9.3 for some major wedding expenditures).8 But that's just the start. Newlyweds in the United States spend a total of about $70 billion on their households in the first year after marriage—and they buy more in the first six months than an established household does in five years! The Honda Fit targets young Gen Y buyers as well as psychologically young empty nest parents. So ur ce : C ou rt es y A m er ic an H on da M ot or C o ., I nc . 250 PART 4 | Building STRong BRAndS Marketers know marriage often means two sets of shopping habits and brand preferences must be blended into one. Procter & Gamble, Clorox, and Colgate-Palmolive include their products in "Newlywed Kits," distrib- uted when couples apply for a marriage license. JCPenney has identified "Starting Outs" as one of its two major customer groups. Marketers pay a premium for name lists to assist their direct marketing because, as one noted, newlywed names "are like gold."9 But not everyone goes through that life stage at a certain time—or at all, for that matter. More than a quarter of all U.S. households now consist of only one person—a record high. It's no surprise this $1.9 trillion market is at- tracting interest from marketers: Lowe's has run an ad featuring a single woman renovating her bathroom; DeBeers sells a "right-hand ring" for unmarried women; and at the recently opened, ultra-hip Middle of Manhattan 63-floor tower, two-thirds of the occupants live alone in one-bedroom and studio rental apartments.10 gender Men and women have different attitudes and behave differently, based partly on genetic makeup and partly on socialization.11 Research shows that women have traditionally tended to be more communal-minded and men more self-expressive and goal-directed; women have tended to take in more of the data in their immediate environment and men to focus on the part of the environment that helps them achieve a goal. A research study of shopping found that men often need to be invited to touch a product, whereas women are likely to pick it up without prompting. Men often like to read product information; women may relate to a product on a more personal level. Marketers can now reach women more easily via media like Lifetime, Oxygen, and WE television net- works and scores of women's magazines and Web sites; men are more easily found at ESPN, Comedy Central, and Spike TV channels and through magazines such as Maxim and Men's Health.12 After Pinterest proved its Table 9.3 Major Wedding Expenditures Reception: $11,599 Engagement ring: $5,229 Wedding rings: $1,594 Photography: $2,186 Wedding gown: $1,355 Flowers: $1,334 Wedding cake: $486 Source: May 2012 survey from Brides magazine. Given their elevated household spending rates, newlyweds are a lucrative target market for marketers. So ur ce : © M N St ud io /F ot ol ia identifying MARkeT SegMenTS And TARgeTS | chapter 9 251 popularity among women, five different Web sites with similar functionality but targeted at men sprang up, including MANinteresting, Dudepins, and Gentlemint.13 Gender differences are shrinking in some other areas as men and women expand their roles. One Yahoo sur- vey found that more than half of men identified themselves as the primary grocery shoppers in their households. Procter & Gamble now designs some ads with men in mind, such as for its Gain and Tide laundry detergents, Febreze air freshener, and Swiffer sweepers. On the flip side, according to some studies, women in the United States and the United Kingdom make 75 percent of decisions about buying new homes and purchase 60 percent of new cars.14 Nevertheless, gender differentiation has long been applied in clothing, hairstyling, and cosmetics. Avon, for one, has built a $6 billion-plus business by selling beauty products to women. Gillette has found similar success with its Venus razor.15 Venus RazOR Gillette's Venus razor has become the women's shaving market's leading line ever— holding more than 50 percent of the global women's shaving market —as a result of insightful consumer research and extensive market tests revealing product design, packaging, and advertising cues. The razor was a marked departure from earlier designs, which had essentially been colored or repackaged versions of men's razors. Venus was designed to uniquely meet women's needs, instead of just repackaging men's. Extensive research identified unique shaving needs for women, including shaving a surface area 9X greater than the male face; in a wet environment and across the unique curves of the body. The result- ing female design included an oval shaped cartridge to better fit in to tight areas like underarms and bikini and additional lubrication for better glide. Furthermore, after discovering that women change their grip on a razor about 30 times during each shaving session, Gillette designed Venus razor with a wide, sculpted rubberized handle offering superior grip and control. Gillette Venus did not stop with the differences be- tween men and women's shaving needs, when Gillette later found four distinct segments of female shavers—perfect shave seekers (no missed hairs), skin pamperers, pragmatic functionalists, and EZ seekers—the company designed Venus products for each of them. It also commissioned Harris Interactive to conduct an online study among more than 6,500 women in 13 countries that found seven of 10 wanted so-called goddess skin, defined as smooth (68 per- cent), healthy (66 percent), and soft (61 percent), leading to the introduction of the new Gillette Venus & Olay razor. inCome Income segmentation is a long-standing practice in such categories as automobiles, clothing, cosmetics, financial services, and travel. However, income does not always predict the best customers for a given product. Blue-collar workers were among the first purchasers of color television sets; it was cheaper for them to buy a television than to go to movies and restaurants. Many marketers are deliberately going after lower- income groups, in some cases discovering fewer com- petitive pressures or greater consumer loyalty. Procter & Gamble launched two discount-priced brand exten- sions in 2005—Bounty Basic and Charmin Basic— which have met with some success. Other marketers are finding success with premium-priced products. When Whirlpool launched a pricey Duet washer line, sales doubled their forecasts in a weak economy, due primar- ily to middle-class shoppers who traded up. Increasingly, companies are finding their markets are hourglass-shaped, as middle-market U.S. consumers Years of in-depth consumer research with women has been critical to the long-term success of Gillette's Venus razor. So ur ce : P ro ct er & G am bl e C om pa ny 252 PART 4 | Building STRong BRAndS migrate toward both discount and premium products. Companies that miss out on this new market risk being "trapped in the middle" and seeing their market share steadily decline. Recognizing that its channel strategy emphasized retailers like Sears selling primarily to the middle class, Levi-Strauss has since introduced pre- mium lines such as Levi's Made & Crafted to upscale retailers Bloomingdales and Saks Fifth Avenue and the less-expensive Signature by Levi Strauss & Co. line to mass-market retailers Walmart and Kmart. generaTion Each generation or cohort is profoundly influenced by the times in which it grows up—the music, movies, politics, and defining events of that period. Members share the same major cultural, political, and economic experiences and often have similar outlooks and values. Marketers may choose to advertise to a cohort by using the icons and images prominent in its experiences. They can also try to develop products and services that uniquely meet the particular interests or needs of a generational target. Although the beginning and ending birth dates of any generation are always subjective—and generalizations can mask important differences within the group—here are some general observations about the four main genera- tion cohorts of U.S. consumers, from youngest to oldest.16 Millennials (or Gen Y) Although different age splits are used to define Millennials, or Gen Y, the term usually means people born between 1977 and 1994. That's about 78 million people in the United States, with annual spending power approaching $200 billion. If you factor in career growth and household and family formation and multiply by another 53 years of life expectancy, trillions of dollars in consumer spending are at stake over their life spans. It's not surprising that marketers are racing to get a bead on Millennials' buying behavior. Here is how one bank has targeted these consumers.17 PnC's ViRtuaL WaLLet In early 2007, PNC Bank hired design consultants IDEO to study Gen Y—defined by PNC at that time as 18- to 34-year-olds—to help develop a marketing plan to appeal to them. IDEO's research found this cohort (1) didn't know how to manage money and (2) found bank Web sites clunky and awkward to use. PNC thus chose to introduce a new offering, Virtual Wallet, that combined three accounts—"Spend" (regular checking and bill payments), "Reserve" (backup interest-bearing checking for overdraft protection and emergencies), and "Grow" (long-term savings)—with a slick personal finance tool—the "Money Bar"— by which customers can drag money from account to account (while visually checking for ad- justing an on-screen slider. Instead of seeing a traditional ledger, customers can view balances on a calendar that displays esti- mated future cash flow based on when they get paid, when they pay their bills, and what their spending habits are. Customers also can set a "Savings Engine" tool to transfer money to savings when they receive a paycheck as well as get their account balances via text. PNC has added even more features to Virtual Wallet, such as transaction information for credit cards and a joint calendar view for joint account holders, which has expanded the service's appeal beyond its 1 million Gen Y customers. PNC also engages 80,000-plus of its Virtual Wallet customers in an online community called "Inside the Wallet" blog, which the bank feels provides more detailed feedback than it can get with its Twitter and Facebook accounts. Also known as the Echo Boomers, "digital native" Millennials have been wired almost from birth—playing computer games, navigating the Internet, downloading music, and connecting with friends via texting and social The Signature by Levi Strauss & Co. line of jeans allows the company to effectively and efficiently reach more mass-market consumers than with its other existing jeans lines. So ur ce : P R N E W SW IR E identifying MARkeT SegMenTS And TARgeTS | chapter 9 253 media. They are much more likely than other age groups to own multiple devices and multitask while online, mov- ing across mobile, social, and PC platforms. They are also more likely to go online to broadcast their thoughts and experiences and to contribute user-generated content. They tend to trust friends more than corporate sources of information.18 Although they may have a sense of entitlement and abundance from growing up during the economic boom and being pampered by their boomer parents, Millennials are also often highly socially conscious, concerned about environmental issues, and receptive to cause marketing efforts. The recession hit them hard, and many have accumulated sizable debt. One implication is they are less likely to have bought their first homes and more likely to still live with their parents, influencing their purchases in what demographers are calling a "boom-boom" or boomerang effect. That is, the same products that appeal to 20-somethings also appeal to many of their youth- obsessed parents. Because Gen Y members are often turned off by overt branding practices and "hard sell," marketers have tried many different approaches to reach and persuade them.19 Consider these widely used experiential tactics. 1. Student ambassadors—Red Bull enlisted college students as Red Bull Student Brand Managers to distribute samples, research drinking trends, design on-campus marketing initiatives, and write stories for student newspapers. American Eagle, among other brands, has also developed an extensive campus ambassador program. 2. Street teams—Long a mainstay in the music business, street teams help to promote bands both big and small. Rock band Foo Fighters created a digital street team that sends targeted e-mail blasts to members who "get the latest news, exclusive audio/video sneak previews, tons of chances to win great Foo Fighters prizes, & other Foo Fighters Family." 3. Cool events—Hurley, which defined itself as an authentic "Microphone for Youth" brand rooted in surf, skate, art, music, and beach cultures, has been a long-time sponsor of the U.S. Open of Surfing. The actual title sponsor for the 2013 event was Vans, whose shoes and clothing also have strong Millennial appeal. Vans has also been the title sponsor for almost 20 years of the Warped tour, which blends music with action (or ex- treme) sports. Gen X Often lost in the demographic shuffle, the 50 million or so Gen X consumers, named for a 1991 novel by Douglas Coupland, were born between 1964 and 1978. The popularity of Kurt Cobain, rock band Nirvana, and the lifestyle portrayed in the critically lauded film Slacker led to the use of terms like grunge and slacker to characterize Gen X when they were teens and young adults. They bore an unflattering image of disaffection, short attention spans, and weak work ethic. These stereotypes have slowly disappeared. Gen Xers were certainly raised in more challenging times, when work- ing parents relied on day care or "latchkey kids" on their own after school and corporate downsizing led to the threat of layoffs and economic uncertainty. At the same time, social and racial diversity were more widely accepted, and technology changed the way people lived and worked. Although Gen Xers raised standards in educational achievement, they were also the first generation to find surpassing their parents' standard of living a serious challenge. These realities had a profound impact. Gen Xers prize self-sufficiency and the ability to handle any circum- stance. Technology is an enabler for them, not a barrier. Unlike the more optimistic, team-oriented Gen Yers, Gen Xers are more pragmatic and individualistic. As consumers, they are wary of hype and pitches that seem inauthentic The Foo Fighters have used digital street teams to build stronger ties and a sense of community with their devoted fan base. So ur ce : G et ty Im ag es 254 PART 4 | Building STRong BRAndS or patronizing. Direct appeals where value is clear often work best, especially as Gen Xers have become parents raising families.20 Baby Boomers Baby boomers are the approximately 76 million U.S. consumers born between 1946 and 1964. Though they represent a wealthy target, possessing $1.2 trillion in annual spending power and controlling three- quarters of the country's wealth, marketers often overlook them. In network television circles, because advertisers are primarily interested in 18- to 49-year-olds, viewers over 50 are referred to as "undesirables," though ironically the average age of the prime-time TV viewer is 51. With many baby boomers approaching their 70s and even the last and youngest wave crossing 50, demand has exploded for products to turn back the hands of time. According to one survey, nearly one in five boomers was actively resisting the aging process, driven by the mantra "Fifty is the new thirty." As they search for the fountain of youth, sales of hair replacement and hair coloring aids, health club memberships, home gym equipment, skin- tightening creams, nutritional supplements, and organic foods have all soared. Contrary to conventional marketing wisdom that brand preferences of consumers over 50 are fixed, one study of boomers ages 55 to 64 found a significant number are willing to change brands, spend on technology, use social networking sites, and purchase online.21 Although they love to buy things, they hate being sold to, and as one mar- keter noted, "You have to earn your stripes every day." But abundant opportunity exists. Boomers are also less likely to associate retirement with "the end" and see it instead as a new chapter in their lives with new activities, interests, careers, and even relationships.22 Silent Generation Those born between 1925 and 1945—the "Silent Generation"—are redefining what old age means. To start with, many people whose chronological age puts them in this category don't see themselves as old.23 One survey found that 60 percent of respondents over 65 said they felt younger than their actual age. A third of those 65 to 74 said they felt 10 to 19 years younger, and one in six felt at least 20 years younger than their actual age.24 Consistent with what they say, many older consumers lead very active lives. As one expert noted, it is if they were having a second middle age before becoming elderly. Advertisers have learned that older consumers don't mind seeing other older consumers in ads targeting them, as long as they appear to be leading vibrant lives. But marketers have learned to avoid clichés like happy older couples riding bikes or strolling hand in hand on a beach at sunset. Strategies emphasizing seniors' roles as grandparents are well received. Many older consumers not only happily spend time with their grandkids, they often provide for their basic needs and at least occasional gifts. The founders of eBeanstalk.com, which sells children's learning toys, thought their online business would be driven largely by young consumers starting families. They were surprised to find that as much as 40 percent of their customers were older, mainly grandparents. These customers are very demanding but also more willing to pay full price than their younger counterparts.25 But they also need their own products. To design better appliances for the elderly, GE holds empathy sessions to help designers understand the challenges of aging. They tape their knuckles to represent arthritic hands, put ker- nels of popcorn in their shoes to create imbalance, and weigh down pans to simulate the challenge of putting food into ovens. Researchers at the MIT AgeLab use a suit called AGNES (Age Gain Now Empathy System) to research Researchers at the MIT AgeLab use special suits in their shopping experiments to mimic the physical limitations of being elderly. So ur ce : N at ha n- Fr ie d- Li pi n/ M IT A ge La b identifying MARkeT SegMenTS And TARgeTS | chapter 9 255 the changing needs of the elderly. The suit has a pelvic harness that connects to a headpiece, mimicking an aging spine and restricted mobility, range of motion, joint function, balance, and vision.26 Race and Culture Multicultural marketing is an approach recognizing that different ethnic and cultural segments have sufficiently different needs and wants to require targeted marketing activities and that a mass market approach is not refined enough for the diversity of the marketplace. Consider that McDonald's now does 40 percent of its U.S. business with ethnic minorities. Its highly successful "I'm Lovin' It" campaign was rooted in hip-hop culture but has had an appeal that transcended race and ethnicity.27 The Hispanic American, African American, and Asian American markets are all growing at two to three times the rate of nonmulticultural populations, with numerous submarkets, and their buying power is expanding. Multicultural consumers also vary in whether they are first, second, or a later generation and whether they are im- migrants or born and raised in the United States. Marketers need to factor the norms, language nuances, buying habits, and business practices of multicultural markets into the initial formulation of their marketing strategy, rather than adding these as an afterthought. All this diversity also has implications for marketing research; it takes careful sampling to adequately profile target markets. Multicultural markets require different marketing messages, media, channels, and so on. Specialized media exist to reach virtually any cultural segment or minority group, though some have struggled to provide financial and management support for fully realized programs. Fortunately, as countries become more culturally diverse, many marketing campaigns targeting a specific cul- tural group can spill over and positively influence others. Ford developed a TV ad featuring comedian Kevin Hart to launch its new Explorer model that initially targeted the African American market, but it became one of the key ads for the general market launch too.28 Next, we consider issues in the three largest multicultural markets—Hispanic Americans, African Americans, and Asian Americans. Table 9.4 lists some important facts and figures about them.29 Hispanic Americans Accounting for more than half the growth in the U.S. population from 2000 to 2010, Hispanic Americans have become the largest minority in the country. It's projected that by 2020, 17 percent of U.S. residents will be of Hispanic origin. With annual purchasing power of more than $1 trillion in 2010—and expected to rise to $1.5 trillion by 2015, Hispanic Americans would be the world's ninth-largest market if they were a separate nation.30 This segment is youthful. The median age of U.S. Hispanics is 27—right in the middle of the highly coveted 18- to 34 Millennial age range —compared with a median age of 42 for non-Hispanic whites. In fact, every 30 seconds, two non-Hispanics retire while a Hispanic turns 18.31 Hispanic Millennials have been called "fusionistas" because Table 9.4 Multicultural Market Profile Hispanic Americans Asian Americans African Americans Estimated population—2012 52.4 million 15.4 million 41.1 million Forecasted population—2060 128.8 million 34.4 million 61.8 million Number of minority-owned businesses in 2007 2.3 million 1.5 million 1.9 million Revenue generated by minority-owned businesses in 2007 $345.2 billion $507.6 billion $137.5 billion Median household income in 2011 $38, 624 $65,129 $32,229 Poverty rate 2011 25.3% 12.3% 27.6% Percentage of those ages >25 with at least a high school education in 2012 65% 88.8% 84.9% Number of veterans of U.S. armed forces in 2011 1.2 million 264,695 2.3 million Median age in 2011 27.0 36.0 31.7 Percent of population under 18 years old in 2011 35% 23% 28% Sources: www.selig.uga.edu and www.census.gov. 256 PART 4 | Building STRong BRAndS they are both fully American and Latino.32 As one marketing executive noted, "they eat tamales and burgers and watch football and fútbol."33 More than half of the U.S. Hispanic population lives in just three states—California, Texas, and Florida—and more than 4 million Hispanics live in New York and Los Angeles. The Hispanic American market holds a wide variety of subsegments. Hispanics of Mexican origin are the dominant segment, followed by those of Puerto Rican and Cuban descent, though numbers of Salvadorans, Dominicans, Guatemalans, and Columbians are growing faster.34 To meet these divergent needs, Goya, the largest U.S. Hispanic food company with $1.3 billion in annual rev- enue, sells 1,600 products ranging from bags of rice to ready-to-eat, frozen empanadas and 38 varieties of beans alone. The company also has found much success selling key products directly to non-Hispanics. Its new marketing slogan is "We don't market to Latinos, we are Latinos."35 Hispanic Americans often share strong family values—several generations may reside in one household—and strong ties to their country of origin. Even young Hispanics born in the United States tend to identify with the country their families are from. Hispanic Americans desire respect, are brand loyal, and take a keen interest in product quality. Procter & Gamble's research revealed that Hispanic Americans felt "lo barato sale caro" ("cheap can be expensive," or in the English equivalent, "you get what you pay for"). P&G found Hispanic consum- ers were so value-oriented they would even do their own product tests at home. One woman was using different brands of tissues and toilet paper in different rooms to see which her family liked best.36 U.S.-born Hispanic Americans also have different needs and tastes than their foreign-born counterparts and, though bilingual, often prefer to communicate in English. Though three-fifths of U.S. Hispanics are considered "bicultural" and comfortable with both Spanish- and English-speaking cultures, most firms choose to run Spanish- only ads on traditional Hispanic networks Univision and Telemundo. Univision is the long-time market-leader, which has found great success with its DVR-proof telenovelas (like daily soap operas), though new competition is emerging from Fox and other media companies.37 Marketers are reaching out to Hispanic Americans with targeted promotions, ads, and Web sites, but they need to capture the nuances of cultural and market trends.38 Consider two companies that did so. • Although Kleenex was the market-share leader in fa- cial tissues among Hispanics, brand owner Kimberly- Clark felt there was much room to grow. Relying on research showing that more than twice as many Hispanics base their purchase decisions on package and design as in the general population, it launched the "Con Kleenex, Expresa Tu Hispanidad" cam- paign. Amateur artists were solicited to submit de- signs for customized packages sold during National Hispanic Heritage Month. Public voting chose three winners, and the campaign increased Kleenex sales at participating retailers by an impressive 476 percent.39 • The Clorox Company found its Hispanic American customers were relatively more likely to agree or over- index on "cleaning more to prevent family and friends from getting sick," especially in spring and summer months and when visitors came. Additional research also revealed the importance of packaging and a preference for scent as the final step in the cleaning process. Product development led to the launch of the FRAGANZIA line of cleaning products with lavender and other scents that had tested well. As support, Spanish-only ads were run on Hispanic media.40 General Motors, Southwestern Airlines, and Toyota have used a "Spanglish" approach in their ads, conver- sationally mixing some Spanish with English in dia- logue.41 Continental Airlines, General Mills, and Sears have used mobile marketing to reach Hispanics.42 With a mostly younger population Clorox developed its Fraganzia line of cleaning products to appeal to those Hispanics who had strong preferences for hygiene and scent. So ur ce : F R A G A N ZI A is a re gi st er ed tr ad em ar k of T he C lo ro x C om pa ny a nd is u se d w ith p er m is si on . © 2 01 6 T he C lo ro x C om pa ny . R ep rin te d w ith p er m is si on . identifying MARkeT SegMenTS And TARgeTS | chapter 9 257 that may have less access to Internet or landline service, Hispanics are much more active with mobile technology and social media than the general population. Staying connected to friends and family is important for them.43 Asian Americans Based on the U.S. Census Bureau, "Asian" refers to people having origins in any of the original peoples of the Far East, Southeast Asia, or the Indian subcontinent. Six countries represent 79 percent of the Asian American population: China (21 percent), the Philippines (18 percent), India (11 percent), Vietnam (10 percent), Korea (10 percent), and Japan (9 percent). The diversity of these national identities limits the effectiveness of pan-Asian marketing appeals. For example, in terms of general food trends, research has uncovered that Japanese eat much more raw food than Chinese; Koreans are more inclined to enjoy spicy foods and drink more alcohol than other Asians; and Filipinos tend to be the most Americanized and Vietnamese the least Americanized in terms of food choices.44 The Asian American market has been called the "invisible market" because, compared with the Hispanic Americans and African American markets, it has traditionally received a disproportionally small fraction of U.S. companies' total multicultural marketing expenditures.45 Yet it is getting easier to reach this market, given Asian- language newspapers, magazines, cable TV channels, and radio stations targeting specific groups.46 Telecommunications and financial services are a few of the industries more actively targeting Asian Americans. Wells Fargo Bank has a long tradition of marketing to Asian Americans, aided by its deep historical roots in California where a heavy concentration exists. The bank has engaged its Asian American agency partner, Dae Partners, for years. Wells Fargo itself is diverse with an internal team of multicultural experts and a significant group of Asian American executives. It has developed products and programs specifically for the Asian American market and is highly engaged in volunteerism and community efforts.47 Asian Americans tend to be more brand-conscious than other minority groups yet are the least loyal to par- ticular brands. They also tend to care more about what others think (for instance, whether their neighbors will approve of them) and share core values of safety and education. Comparatively affluent and well educated, they are an attractive target for luxury brands. The most computer-literate group, Asian Americans are more likely to use the Internet on a daily basis.48 African Americans are projected to have a combined spending power of $1.1 trillion by 2015. They have had a significant economic, social, and cultural impact on U.S. life, contributing inventions, art, music, sports achievements, fashion, and literature. Like many cultural segments, they are deeply rooted in the U.S. landscape while also proud of their heritage and respectful of family ties.49 Based on survey findings, African Americans are the most fashion-conscious of all racial and ethnic groups but are strongly motivated by quality and selection. They're also more likely to be influenced by their children when selecting a product and less likely to buy unfamiliar brands. African Americans watch television and listen to the radio more than other groups and are heavy users of mobile data. Nearly three-fourths have a profile on more than one social network, with Twitter being extremely popular.50 Media outlets directed at black audiences received only 2 percent of the $120 billion firms spent on advertising in 2011, however.51 A Nielsen research study found that roughly half of African Americans say they are more likely to buy a product if its advertising portrays the black community in a positive manner. More than 90 percent said black media are more relevant to them than generic media outlets.52 To encourage more marketing investment, the Cabletelevision Advertising Bureau trade organization even created an information-laden Web site, www.reachingblackconsumers.com. Ad messages targeting African Americans must be seen as relevant. In a campaign for Lawry's Seasoned Salt tar- geting African Americans, images of soul food appeared; a campaign for Kentucky Fried Chicken showed an African American family gathered at a reunion—demonstrating an understanding of both the market's values and its lifestyle.53 P&G's "My Black Is Beautiful" campaign was started by women inside the company who saw a lack of positive images of African American women in mainstream media. The campaign has a dedicated Web site, a national television show on BET network, and various promotional efforts featuring P&G's beauty, health, and personal care brands.54 Many companies have successfully tailored products to meet the needs of African Americans. Sara Lee Corporation's L'eggs discontinued its separate line of pantyhose for black women; now shades and styles popular among black women make up half the company's general-focus sub-brands. In some cases, campaigns have ex- panded beyond their African American target. State Farm's "50 Million Pound Challenge" weight-loss campaign began in the African American community but expanded to the general market. Cigarette, liquor, and fast-food firms have been criticized for targeting urban African Americans. As one writer noted, with obesity a problem, it is disturbing that it is easier to find a fast-food restaurant than a grocery store in many black neighborhoods.55 Lesbian, Gay, Bisexual, and Transgender (LGBT) The lesbian, gay, bisexual, and transgender (LGBT) market is estimated to make up 5 percent to 10 percent of the population and have approximately $700 billion in buying power.56 Many firms have recently created initiatives to target this market.57 258 PART 4 | Building STRong BRAndS American Airlines created a Rainbow Team with a dedicated LGBT staff and Web site that has emphasized community-relevant services such as a calendar of gay-themed national events. JCPenney hired openly gay Ellen DeGeneres as its spokesperson, featured both male and female same-sex couples in its catalogs, and sponsored a float in New York's Gay Pride parade. Wells Fargo, General Mills, and Kraft are also often identified as among the most gay-friendly businesses.58 Logo, MTV's television channel for a gay and lesbian audience, has 150 advertisers in a wide variety of product categories and is available in more than 52 million homes. Increasingly, advertisers are using digital efforts to reach the market. Hyatt's online appeals to the LGBT community target social sites and blogs where customers share their travel experiences. Some firms worry about backlash from organizations that will criticize or even boycott firms supporting gay and lesbian causes. Although Pepsi, Campbell's, and Wells Fargo all experienced such boycotts in the past, they continue to advertise to the gay community. pSYchoGraphIc SeGmentatIon Psychographics is the science of using psychology and demographics to better understand consumers. In psycho- graphic segmentation, buyers are divided into groups on the basis of psychological/personality traits, lifestyle, or values. People within the same demographic group can exhibit very different psychographic profiles. One of the most popular commercially available classification systems based on psychographic measurements is Strategic Business Insight's (SBI) VALS™ framework. VALS is based on psychological traits for people and clas- sifies U.S. adults into eight primary groups based on responses to a questionnaire featuring four demographic and 35 attitudinal questions. The VALS system is continually updated with new data from more than 80,000 surveys per year (see Figure 9.1). You can find out which VALS type you are by going to the SBI Web site.59 The main dimensions of the VALS segmentation framework are consumer motivation (the horizontal dimen- sion) and consumer resources (the vertical dimension). Consumers are inspired by one of three primary motiva- tions: ideals, achievement, and self-expression. Those primarily motivated by ideals are guided by knowledge and principles. Those motivated by achievement look for products and services that demonstrate success to their peers. Consumers whose motivation is self-expression desire social or physical activity, variety, and risk. Personality traits such as energy, self-confidence, intellectualism, novelty seeking, innovativeness, impulsiveness, leadership, and Thinkers Achievers Innovators Ideals Experiencers Believers Strivers Survivors Makers Achievement Self-Expression Low Resources Low Innovation High Resources High Innovation US VALS Framework Primary Motivation | Fig. 9.1 | The VALS Segmentation System: An Eight- Part Typology Source: www.strategicbusinessinsights.com/ vals © 2014 by Strategic Business Insights. All rights reserved. idenTifying MARkeT SegMenTS And TARgeTS | chapter 9 259 vanity—in conjunction with key demographics—determine an individual's resources. Different levels of resources enhance or constrain a person's expression of his or her primary motivation. BehavIoral SeGmentatIon Although psychographic segmentation can provide a richer understanding of consumers, some marketers fault it for being somewhat removed from actual consumer behavior.60 In behavioral segmentation, marketers divide buyers into groups on the basis of their knowledge of, attitude toward, use of, or response to a product. needS and benefiTS Not everyone who buys a product has the same needs or wants the same benefits from it. Needs-based or benefit-based segmentation identifies distinct market segments with clear marketing implications. For example, Constellation Brands identified six different benefit segments in the U.S. premium wine market ($5.50 a bottle and up).61 • Enthusiast (12 percent of the market). Skewing female, their average income is about $76,000 a year. About 3 percent are "luxury enthusiasts" who skew more male with a higher income. • Image Seekers (20 percent). The only segment that skews male, with an average age of 35. They use wine basically as a badge to say who they are, and they're willing to pay more to make sure they're getting the right bottle. • Savvy Shoppers (15 percent). They love to shop and believe they don't have to spend a lot to get a good bottle of wine. Happy to use the bargain bin. • Traditionalist (16 percent). With very traditional values, they like to buy brands they've heard of and from wineries that have been around a long time. Their average age is 50, and they are 68 percent female. • Satisfied Sippers(14 percent). Not knowing much about wine, they tend to buy the same brands. About half of what they drink is white zinfandel. • Overwhelmed (23 percent). A potentially attractive target market, they find purchasing wine confusing. deCiSion roleS It's easy to identify the buyer for many products. In the United States, men normally choose their shaving equipment and women choose their pantyhose, but even here marketers must be careful in making targeting decisions because buying roles change. When ICI, the giant British chemical company now called AkzoNobe, discovered that women made 60 percent of decisions on the brand of household paint, it decided to advertise its Dulux brand to women. People play five roles in a buying decision: Initiator, Influencer, Decider, Buyer, and User. For example, assume a wife initiates a purchase by requesting a new treadmill for her birthday. The husband may then seek information from many sources, including his best friend who has a treadmill and is a key influencer in what models to con- sider. After presenting the alternative choices to his wife, he purchases her preferred model, which ends up being used by the entire family. Different people are playing different roles, but all are crucial in the decision process and ultimate consumer satisfaction. USer and USage-relaTed VariableS Many marketers believe variables related to users or their usage—occasions, user status, usage rate, buyer-readiness stage, and loyalty status—are good starting points for constructing market segments. Occasions Occasions mark a time of day, week, month, year, or other well-defined temporal aspects of a consumer's life. We can distinguish buyers according to the occasions when they develop a need, purchase a product, or use a product. For example, air travel is triggered by occasions related to business, vacation, or family. Occasion segmentation can help expand product usage. User Status Every product has its nonusers, ex-users, potential users, first-time users, and regular users. Blood banks cannot rely only on regular donors to supply blood; they must also recruit new first-time donors and contact ex-donors, each with a different marketing strategy. The key to attracting potential users, or even possibly nonusers, is understanding the reasons they are not using. Do they have deeply held attitudes, beliefs, or behaviors or just lack knowledge of the product or brand benefits? Included in the potential-user group are consumers who will become users in connection with some life stage or event. Mothers-to-be are potential users who will turn into heavy users. Producers of infant products and services learn their names and shower them with products and ads to capture a share of their future purchases. Market-share leaders tend to focus on attracting potential users because they have the most to gain from them. Smaller firms focus on trying to attract current users away from the market leader. Usage Rate We can segment markets into light, medium, and heavy product users. Heavy users are often a small slice but account for a high percentage of total consumption. Heavy beer drinkers account for 260 PART 4 | Building STRong BRAndS 87 percent of beer consumption—almost seven times as much as light drinkers. Marketers would rather attract one heavy user than several light users. A potential problem, however, is that heavy users are often either extremely loyal to one brand or never loyal to any brand and always looking for the lowest price. They also may have less room to expand their purchase and consumption. Light users may be more responsive to new marketing appeals.62 Buyer-Readiness Stage Some people are unaware of the product, some are aware, some are informed, some are interested, some desire the product, and some intend to buy. To help characterize how many people are at different stages and how well they have converted people from one stage to another, recall from Chapter 5 that marketers can employ a marketing funnel to break the market into buyer-readiness stages. The proportions of consumers at different stages make a big difference in designing the marketing program. Suppose a health agency wants to encourage women to have an annual Pap test to detect cervical cancer. At the beginning, most women may be unaware of the Pap test. The marketing effort should go into awareness-building advertising using a simple message. Later, the advertising should dramatize the benefits of the Pap test and the risks of not getting it. A special offer of a free health examination might motivate women to actually sign up for the test. Figure 9.2 displays a funnel for two hypothetical brands. Compared with Brand B, Brand A performs poorly at converting one-time users to more recent users (only 46 percent convert for Brand A compared with 61 percent for Brand B). Depending on the reasons consumers didn't use again, a marketing campaign could introduce more relevant products, find more accessible retail outlets, or dispel rumors or incorrect beliefs consumers hold. Loyalty Status Marketers usually envision four groups based on brand loyalty status: 1. Hard-core loyals—Consumers who buy only one brand all the time 2. Split loyals—Consumers who are loyal to two or three brands 3. Shifting loyals—Consumers who shift loyalty from one brand to another 4. Switchers—Consumers who show no loyalty to any brand63 A company can learn a great deal by analyzing degrees of brand loyalty: Hard-core loyals can help identify the products' strengths; split loyals can show the firm which brands are most competitive with its own; and by looking at customers dropping its brand, the company can learn about its marketing weaknesses and attempt to correct them. One caution: What appear to be brand-loyal purchase patterns may reflect habit, indifference, a low price, a high switching cost, or the unavailability of other brands. Attitude Five consumer attitudes about products are enthusiastic, positive, indifferent, negative, and hostile. Workers in a political campaign use attitude to determine how much time and effort to spend with each voter. They thank enthusiastic voters and remind them to vote, reinforce those who are positively disposed, try to win the votes of indifferent voters, and spend no time trying to change the attitudes of negative and hostile voters. Multiple Bases Combining different behavioral bases can provide a more comprehensive and cohesive view of a market and its segments. Figure 9.3 depicts one possible way to break down a target market by various behavioral segmentation bases. 96 65% 63 46% 29 62% 18 67% 12 6 50%Brand A Aware Ever Tried Recent Trial Occasional User Regular User Most Often Used 97 76% 74 61% 45 71% 32 75% 24 15 62%Brand B Aware Ever Tried Recent Trial Occasional User Regular User Most Often Used | Fig. 9.2 | Example of Marketing Funnel idenTifying MARkeT SegMenTS And TARgeTS | chapter 9 261 How Should Business Markets Be Segmented? We can segment business markets with some of the same variables we use in consumer markets, such as geog- raphy, benefits sought, and usage rate, but business marketers also use other variables. Table 9.5 shows one set of these. The demographic variables are the most important, followed by the operating variables—down to the personal characteristics of the buyer. The table lists major questions that business marketers should ask in determining which segments and custom- ers to serve. A rubber-tire company can sell tires to manufacturers of automobiles, trucks, farm tractors, forklift trucks, or aircraft. Within a chosen target industry, it can further segment by company size and set up separate operations for selling to large and small customers. A company can segment further by purchase criteria. Government laboratories need low prices and service contracts for scientific equipment, university laboratories need equipment that requires little service, and indus- trial labs need equipment that is highly reliable and accurate. Business marketers generally identify segments through a sequential process. Consider an aluminum company: The company first undertook macrosegmentation. It looked at which end-use market to serve: au- tomobile, residential, or beverage containers. It chose the residential market, and it needed to determine the most attractive product application: semifinished material, building components, or aluminum mobile homes. Deciding to focus on building components, it considered the best customer size and chose large. The second stage consisted of microsegmentation. The company distinguished among customers buying on price, service, and quality. Because it had a high-service profile, the firm decided to concentrate on the service-motivated seg- ment of the market. Target Market Negative opinion Neutral Favorable opinion Rejector Not yet repeated Repeated Loyal to other brand Switcher Loyal to brand Light user Regular user Heavy user AwareUnaware Not tried Tried | Fig. 9.3 | Behavioral Segmentation Breakdown 262 PART 4 | Building STRong BRAndS Business-to-business marketing experts James C. Anderson and James A. Narus have urged marketers to pres- ent flexible market offerings to all members of a segment.64 A flexible market offering consists of two parts: a na- ked solution containing the product and service elements that all segment members value and discretionary options that some segment members value. Each option might carry an additional charge. Siemens Electrical Apparatus Division sells metal-clad boxes to small manufacturers at prices that include free delivery and a warranty, but it also offers installation, tests, and communication peripherals as extra-cost options. Market Targeting There are many statistical techniques for developing market segments.65 Once the firm has identified its market- segment opportunities, it must decide how many and which ones to target. Marketers are increasingly combining several variables in an effort to identify smaller, better-defined target groups. Thus, a bank may not only identify a group of wealthy retired adults but within that group distinguish several segments depending on current in- come, assets, savings, and risk preferences. This has led some market researchers to advocate a needs-based mar- ket segmentation approach. Roger Best proposed the seven-step approach shown in Table 9.6. Table 9.5 Major Segmentation Variables for Business Markets Demographic 1. Industry: Which industries should we serve? 2. Company size: What size companies should we serve? 3. Location: What geographical areas should we serve? Operating Variables 4. Technology: What customer technologies should we focus on? 5. User or nonuser status: Should we serve heavy users, medium users, light users, or nonusers? 6. Customer capabilities: Should we serve customers needing many or few services? Purchasing Approaches 7. Purchasing-function organization: Should we serve companies with a highly centralized or decentralized purchasing organization? 8. Power structure: Should we serve companies that are engineering dominated, financially dominated, and so on? 9. Nature of existing relationship: Should we serve companies with which we have strong relationships or simply go after the most desirable companies? 10. General purchasing policies: Should we serve companies that prefer leasing? Service contract? Systems purchases? Sealed bidding? 11. Purchasing criteria: Should we serve companies that are seeking quality? Service? Price? Situational Factors 12. Urgency: Should we serve companies that need quick and sudden delivery or service? 13. Specific application: Should we focus on a certain application of our product rather than all applications? 14. Size or order: Should we focus on large or small orders? Personal Characteristics 15. Buyer-seller similarity: Should we serve companies whose people and values are similar to ours? 16. Attitude toward risk: Should we serve risk-taking or risk-avoiding customers? 17. Loyalty: Should we serve companies that show high loyalty to their suppliers? Source: Adapted from Thomas V. Bonoma and Benson P. Shapiro, Segmenting the Industrial Market (Lexington, MA: Lexington Books, 1983). idenTifying MARkeT SegMenTS And TARgeTS | chapter 9 263 Effective Segmentation Criteria Not all segmentation schemes are useful. We could divide buyers of table salt into blond and brunette custom- ers, but hair color is undoubtedly irrelevant to the purchase of salt. Furthermore, if all salt buyers buy the same amount of salt each month, believe all salt is the same, and would pay only one price for salt, this market is mini- mally segmentable from a marketing point of view. To be useful, market segments must rate favorably on five key criteria: • Measurable. The size, purchasing power, and characteristics of the segments can be measured. • Substantial. The segments are large and profitable enough to serve. A segment should be the largest possible homogeneous group worth going after with a tailored marketing program. It would not pay, for example, for an automobile manufacturer to develop cars for people who are under four feet tall. • Accessible. The segments can be effectively reached and served. • Differentiable. The segments are conceptually distinguishable and respond differently to different marketing- mix elements and programs. If married and single women respond similarly to a sale on perfume, they do not constitute separate segments. • Actionable. Effective programs can be formulated for attracting and serving the segments. Michael Porter has identified five forces that determine the intrinsic long-run attractiveness of a market or mar- ket segment: industry competitors, potential entrants, substitutes, buyers, and suppliers. The threats these forces pose are as follows.66 1. Threat of intense segment rivalry—A segment is unattractive if it already contains numerous, strong, or aggressive competitors. It's even more unattractive if it's stable or declining, if plant capacity must be added in large increments, if fixed costs or exit barriers are high, or if competitors have high stakes in staying in the seg- ment. These conditions will lead to frequent price wars, advertising battles, and new-product introductions and will make it expensive to compete. The mobile phone market has seen fierce competition due to segment rivalry. 2. Threat of new entrants—The most attractive segment is one in which entry barriers are high and exit bar- riers are low. Few new firms can enter the industry, and poorly performing firms can easily exit. When both entry and exit barriers are high, profit potential is high, but firms face more risk because poorer-performing firms stay in and fight it out. When both entry and exit barriers are low, firms easily enter and leave the in- dustry, and returns are stable but low. The worst case occurs when entry barriers are low and exit barriers are high: Here firms enter during good times but find it hard to leave during bad times. The result is chronic Table 9.6 Steps in the Segmentation Process Description 1. Needs-Based Segmentation Group customers into segments based on similar needs and benefits sought by customers in solving a particular consumption problem. 2. Segment Identification For each needs-based segment, determine which demographics, lifestyles, and usage behaviors make the segment distinct and identifiable (actionable). 3. Segment Attractiveness Using predetermined segment attractiveness criteria (such as market growth, competitive intensity, and market access), determine the overall attractiveness of each segment. 4. Segment Profitability Determine segment profitability. 5. Segment Positioning For each segment, create a "value proposition" and product-price positioning strategy based on that segment's unique customer needs and characteristics. 6. Segment "Acid Test" Create "segment storyboard" to test the attractiveness of each segment's positioning strategy. 7. Marketing-Mix Strategy Expand segment positioning strategy to include all aspects of the marketing mix: product, price, promotion, and place. Source: Adapted from Roger J. Best, Market-Based Management, 6th ed. (Upper Saddle River NJ: Prentice Hall, 2013). © 2013. Printed and electronically reproduced by permission of Pearson Education, Inc. Upper Saddle River, New Jersey. 264 PART 4 | Building STRong BRAndS overcapacity and depressed earnings for all. The airline industry has low entry barriers but high exit barriers, leaving all carriers struggling during economic downturns. 3. Threat of substitute products—A segment is unattractive when there are actual or potential substitutes for the product. Substitutes place a limit on prices and on profits. If technology advances or competition increases in these substitute industries, prices and profits are likely to fall. Air travel has severely challenged profitability for Greyhound and Amtrak. 4. Threat of buyers' growing bargaining power—A segment is unattractive if buyers possess strong or growing bargaining power. The rise of retail giants such as Walmart has led some analysts to conclude that the poten- tial profitability of packaged-goods companies will become curtailed. Buyers' bargaining power grows when they become more concentrated or organized, when the product represents a significant fraction of their costs, when the product is undifferentiated, when buyers' switching costs are low, or when they can integrate upstream. To protect themselves, sellers might select buyers who have the least power to negotiate or switch suppliers. A better defense is developing superior offers that strong buyers cannot refuse. 5. Threat of suppliers' growing bargaining power—A segment is unattractive if the company's suppliers are able to raise prices or reduce quantity supplied. Suppliers tend to be powerful when they are concentrated or orga- nized, when they can integrate downstream, when there are few substitutes, when the supplied product is an important input, and when the costs of switching suppliers are high. The best defenses are to build win-win relationships with suppliers or use multiple supply sources. evaluatInG anD SelectInG the market SeGmentS In evaluating market segments, the firm must look at two factors: the segment's overall attractiveness and the company's objectives and resources. How well does a potential segment score on the five criteria? Does it have characteristics that make it generally attractive, such as size, growth, profitability, scale economies, and low risk? Does investing in it make sense given the firm's objectives, competencies, and resources? Some attractive seg- ments may not mesh with the company's long-run objectives, or the company may lack one or more competen- cies necessary to offer superior value. Marketers have a range or continuum of possible levels of segmentation that can guide their target market deci- sions. As Figure 9.4 shows, at one end is a mass market of essentially one segment; at the other are individuals or segments of one person each. Between lie multiple segments and single segments. We describe approaches to each of the four levels next. fUll mARKeT CoVeRAge With full market coverage, a firm attempts to serve all customer groups with all the products they might need. Only very large firms such as Microsoft (software market), General Motors (vehicle market), and Coca-Cola (nonalcoholic beverage market) can undertake a full market coverage strategy. Large firms can cover a whole market in two broad ways: through differentiated or undifferentiated marketing. In undifferentiated or mass marketing, the firm ignores segment differences and goes after the whole market with one offer. It designs a marketing program for a product with a superior image that can be sold to the broad- est number of buyers via mass distribution and mass communications. Undifferentiated marketing is appropriate when all consumers have roughly the same preferences and the market shows no natural segments. Henry Ford epitomized this strategy when he offered the Model-T Ford in one color, black. The argument for mass marketing is that it creates the largest potential market, which leads to the lowest costs, which in turn can lead to lower prices or higher margins. The narrow product line keeps down the costs of research and development, production, inventory, transportation, marketing research, advertising, and product management. The undifferentiated communication program also reduces costs. However, many critics point to the increasing splintering of the market and the proliferation of marketing channels and communication, which make it difficult and increasingly expensive to reach a mass audience. Customizationizati Mass MarketMass Mar Full Market Coverage Multiple Segments Single Segments Individuals as Segments | Fig. 9.4 | Possible Levels of Segmentation idenTifying MARkeT SegMenTS And TARgeTS | chapter 9 265 When different groups of consumers have different needs and wants, marketers can define multiple segments. The company can often better design, price, disclose, and deliver the product or service and also fine-tune the mar- keting program and activities to better reflect competitors' marketing. In differentiated marketing, the firm sells different products to all the different segments of the market. Cosmetics firm Estée Lauder markets brands that appeal to women (and men) of different tastes: The flagship brand, the original Estée Lauder, appeals to older con- sumers; Clinique caters to middle-aged women; M.A.C. to youthful hipsters; Aveda to aromatherapy enthusiasts; and Origins to ecoconscious consumers who want cosmetics made from natural ingredients.67 Perhaps no firm practices differentiated marketing like Hallmark Cards, which celebrated its 100th birthday in 2010.68 HaLLmaRk Hallmark's personal expression products are sold in more than 40,000 retail outlets nation- wide and in 100 countries worldwide. Each year the company produces 10,000 new and redesigned greeting cards, as well as related products including party goods, gift wrap, and ornaments. Its success is due in part to its vigorous seg- mentation of the greeting card business. In addition to popular sub-branded card lines such as the humorous Shoebox Greetings, Hallmark has introduced lines targeting specific market segments. Fresh Ink targets 18- to 39-year-old women. The Simple Motherhood line targets moms with designs featuring fresh photography and simple, relatable sentiments. Hallmark's three ethnic lines—Mahogany, Sinceramente Hallmark, and Tree of Life—target African American, Hispanic, and Jewish consumers, respectively. Specific greeting cards also benefit charities such as (PRODUCT) RED™, UNICEF, and the Susan G. Komen Race for the Cure. Hallmark has also embraced technology. Musical greeting cards incorporate sound clips from popular movies, TV shows, and songs. Hallmark recently introduced its Magic Prints line of interactive cards, which through "magic mitt" technology that lets kids leave an imprint of their hand on an insert in a card or other keepsake for parents or grandparents. Online, Hallmark offers e-cards as well as personalized printed greeting cards that it mails for consumers. For business needs, Hallmark Business Expressions offers personalized corporate holiday cards and greeting cards for all occasions and events. Differentiated marketing typically creates more total sales than undifferentiated marketing. However, it also increases the costs of doing business. Because differentiated marketing leads to both higher sales and higher costs, no generalizations about its profitability are valid. mUlTiple SegmenT SpeCialiZaTion With selective specialization, a firm selects a subset of all the possible segments, each objectively attractive and appropriate. There may be little or no synergy among the segments, but each promises to be a moneymaker. When Procter & Gamble launched Crest Whitestrips, initial target segments included newly engaged women and brides-to-be as well as gay males. The multisegment strategy also has the advantage of diversifying the firm's risk. Keeping synergies in mind, companies can try to operate in supersegments rather than in isolated segments. A supersegment is a set of segments sharing some exploitable similarity. For example, many symphony orchestras target people who have broad cultural interests, rather than only those who regularly attend concerts. A firm can also attempt to achieve some synergy with product or market specialization. Hallmark has thoroughly segmented the greeting card market according to occasion, personality, race, and other factors. So ur ce : © J ef f G re en be rg / A la m y 266 PART 4 | Building STRong BRAndS • With product specialization, the firm sells a certain product to several different market segments. A microscope manufacturer, for instance, sells to university, government, and commercial laboratories, making different instruments for each and building a strong reputation in the specific product area. The downside risk is that the product may be supplanted by an entirely new technology. • With market specialization, the firm concentrates on serving many needs of a particular customer group, such as by selling an assortment of products only to university laboratories. The firm gains a strong reputation among this customer group and becomes a channel for additional products its members can use. The down- side risk is that the customer group may suffer budget cuts or shrink in size. Single-SegmenT ConCenTraTion With single-segment concentration, the firm markets to only one particular segment. Porsche concentrates on the sports car enthusiast and Volkswagen on the small-car market— its foray into the large-car market with the Phaeton was a failure in the United States. Through concentrated marketing, the firm gains deep knowledge of the segment's needs and achieves a strong market presence. It also enjoys operating economies by specializing its production, distribution, and promotion. If it captures segment leadership, the firm can earn a high return on its investment. A niche is a more narrowly defined customer group seeking a distinctive mix of benefits within a segment. Marketers usually identify niches by dividing a segment into subsegments. Whereas Hertz, Avis, Alamo, and others specialize in airport rental cars for business and leisure travelers, Enterprise has attacked the low-budget, insurance-replacement market by primarily renting to customers whose cars have been wrecked or stolen. By cre- ating unique associations to low cost and convenience in an overlooked niche market, Enterprise has been highly profitable. Another up-and-coming niche marketer is Allegiant Air.69 aLLegiant aiR The recent prolonged recession wreaked havoc on the financial performance of all the major U.S. domestic airlines. Up-and-comer Allegiant Air, however, managed to turn a profit quarter after quarter. Founded in Eugene, OR, in 2007, Allegiant has developed a highly successful niche strategy by providing leisure travelers with afford- able nonstop flights from smaller markets such as Great Falls, MT; Grand Forks, ND; Knoxville, TN; and Plattsburgh, NY; to popular vacation spots in Florida, California, and Hawaii and to Las Vegas, Phoenix, and Myrtle Beach. By staying off the beaten track, it avoids competition on all but a handful of its 100-plus routes. Much of its passenger traffic is effective and incremental, attracting tourist travel that might not have otherwise even happened. If a market doesn't seem to be taking hold, Allegiant quickly drops it. The carrier carefully balances revenues and costs. It charges for services—like in-flight bev- erages and overhead storage space—that are free on other airlines. It also generates additional revenue by cross-selling vacation products and packages. Allegiant owns its 64 used MD-80 planes and also cuts costs by flying only a few times a week instead of a few times a day like most airlines. It even fixes its seats at a pitch halfway between fully upright and fully reclined—adjustable seats add weight, cost, and fuel and are a "maintenance nightmare." The formula seems to be working. Passengers in its local markets love the convenience, keeping Allegiant's planes full and the company profitable. Allegiant Air has found a niche flying leisure travelers from smaller markets. So ur ce : © M ic ha el M at th ew s/ A la m y idenTifying MARkeT SegMenTS And TARgeTS | chapter 9 267 What does an attractive niche look like? Niche customers have a distinct set of needs; they will pay a premium to the firm that best satisfies them; the niche is fairly small but has size, profit, and growth potential and is unlikely to attract many competitors; and it gains certain economies through specialization. As marketing efficiency increases, niches that seemed too small may become more profitable. See "Marketing Insight: Chasing the Long Tail." indiViduaL maRkeTing The ultimate level of segmentation leads to "segments of one," "customized marketing," or "one-to-one marketing."70 As companies have grown proficient at gathering information about individual customers and business partners (suppliers, distributors, retailers), and as their factories are being designed more flexibly, they have increased their ability to individualize market offerings, messages, and media. Mass customization is the ability of a company to meet each customer's requirements—to prepare on a mass basis individually designed products, services, programs, and communications.71 Chasing the Long Tail The advent of online commerce, made possible by technology and epitomized by Amazon.com, eBay, iTunes, and Netflix, has led to a shift in consumer buying patterns, according to Chris Anderson, editor-in- chief of Wired magazine and author of The Long Tail. In most markets, the distribution of product sales conforms to a curve weighted heavily to one side—the "head"—where the bulk of sales are generated by a few products. The curve falls rapidly toward zero and hovers just above it far along the X-axis—the "long tail"— where the vast majority of products generate very little sales. The mass market traditionally focused on generating "hit" products that occupy the head, disdaining the low-revenue market niches comprising the tail. The Pareto principle-based "80–20" rule—that 80 percent of a firm's revenue is generated by 20 percent of a firm's products—epitomizes this thinking. Anderson asserts that as a result of consumers' enthusiastic adoption of the Internet as a shopping medium, the long tail holds significantly more value than before. In fact, he argues, the Internet has directly contributed to the shifting of demand "down the tail, from hits to niches" in a number of product categories including music, books, clothing, and movies. According to this view, the rule that now prevails is more like "50–50," with lower-selling products adding up to half a firm's revenue. Anderson's long-tail theory is based on three premises: (1) Lower costs of distribution make it economically easier to sell products without precise predictions of demand; (2) The more products available for sale, the greater the likelihood of tapping into latent demand for niche tastes unreachable through traditional retail channels; and (3) If enough niche tastes are aggregated, a big new market can result. Anderson identifies two aspects of Internet shopping that sup- port these premises. First, the increased inventory and variety afforded online permit greater choice. Second, the search costs for relevant new products are lowered due to the wealth of information online, the filtering of product recommendations based on user preferences that vendors can provide, and the word-of-mouth network of Internet users. Some critics challenge the notion that old business paradigms have changed as much as Anderson suggests. Especially in entertain- ment, they say, the "head" where hits are concentrated is valuable also to consumers, not only to the content creators. One critique argued that "most hits are popular because they are of high quality," and another noted that the majority of products and services making up the long tail originate from a small concentration of online "long-tail aggregators." Although some academic research supports the long-tail theory, other research is more challenging, finding that poor recommendation systems render many very low share products in the tail so obscure and hard to find they disappear before they can be purchased frequently enough to justify their existence. For companies selling physical prod- ucts, inventory, stocking, and handling costs can outweigh any financial benefits of such products. Harvard's Anita Elberse provides an especially detailed analysis of various media and entertainment options via sources such as sales data from Nielsen Soundscan and online music service Rhapsody, with some provocative findings. Blockbusters are capturing even more of the market than they used to, which Elberse attributes to humans' social nature and desire to share experiences. Consumers in the tail tend to be heavier users in the category but actually don't like niche products as much as they like the hit products. Elberse concluded that consumer behavior online and offline in the media and entertainment industries was highly similar and favored hit products in both cases. She sees niche products in the tail and the end of a distribution can have value, but keeping costs low is critical. The debate over the importance of the long tail is likely to continue; perhaps the answer is that it is not so much either/or, but how hit and niche products can best be created and marketed. Sources: Chris Anderson, The Long Tail (New York: Hyperion, 2006); "Reading the Tail," interview with Chris Anderson, Wired, July 8, 2006, p. 30; "Wag the Dog: What the Long Tail Will Do," The Economist, July 8, 2006, p. 77; John Cassidy, "Going Long," New Yorker, July 10, 2006; Erik Brynjolfsson, Yu "Jeffrey" Hu, and Michael D. Smith, "From Niches to Riches: Anatomy of a Long Tail," MIT Sloan Management Review (Summer 2006), p. 67; Anita Elberse, "Should You Invest in the Long Tail," Harvard Business Review, July–August 2008, pp. 88–96 (with online commentary); Lee Gomes, "Study Refutes Niche Theory Spawned by Web," Wall Street Journal, July 2, 2008; Erick Schonfeld, "Poking Holes in the Long Tail Theory," www.techcrunch.com, July 2, 2008; "Rethinking the Long Tail Theory: How to Define 'Hits' and 'Niches,'" , September 16, 2009. insight marketing 268 PART 4 | Building STRong BRAndS Consumers increasingly value self-expression and are taking the ability to capitalize on user-generated products (UGP) as much as user-generated content (UGC).72 MINI Cooper's online "configurator" allows prospective buyers to virtu- ally select and try out many options for a new MINI. Coke's Freestyle vending machine allows users to choose from more than 100 Coke brands or custom flavors or to create their own.73 Consumers can buy customized jeans, cowboy boots, and bicycles that cost thousands of dollars.74 Peter Wagner Started Wagner Custom Skis in Telluride, Colorado, in 2006. His company now makes about 1,000 snowboards and pairs of skis a year, with prices that start at $1,750. Each ski or snowboard is unique and precisely fitted to the preferences and riding style of its owner. Strategies like using NASA-like materials and making adjustments of thousands of an inch send a strong performance message, matched by the attractive aesthetic of the skis.75 Services are also a natural setting to apply customized marketing; airlines, hotels, and rental car agencies are at- tempting to offer more individualized experiences. Even political candidates are embracing customized targeting. On Facebook, politicians can find an individual's preferences by observing the groups or causes he or she joins, and then, using Facebook's ad platform, the campaign team can test hundreds of ad messages designed to reflect the theme of these other interests. Hikers may get an environmentally themed message; members of particular religious groups may get a Christian-themed message.76 Early pioneers in individual marketing Don Peppers and Martha Rogers outlined a four-step framework for what they called one-to-one marketing as follows:77 1. Identify your prospects and customers. Don't go after everyone. Build, maintain, and mine a rich customer database with information from all the channels and customer touch points. 2. Differentiate customers in terms of (1) their needs and (2) their value to your company. Spend propor- tionately more effort on the most valuable customers (MVCs). Apply activity-based costing and calculate customer lifetime value. Estimate net present value of all future profits from purchases, margin levels, and referrals, less customer-specific servicing costs. 3. Interact with individual customers to improve your knowledge about their individual needs and to build stronger relationships. Formulate customized offerings you can communicate in a personalized way. 4. Customize products, services, and messages to each customer. Facilitate customer interaction through the company contact center and Web site. One-to-one marketing is not for every company. It works best for firms that normally collect a great deal of individual customer information and carry a lot of products that can be cross-sold, need periodic replacement or upgrading, and offer high value. For others, the required investment in information collection, hardware, and software may exceed the payout. The cost of goods is raised beyond what the customer is willing to pay. Customers must know how to express their personal product preferences, however, or be given assistance to best customize a product.78 Some customers don't know what they want until they see actual products, but they also cannot cancel the order after the company has started to work on it. The product may be hard to repair and have little resale value. In spite of this, customization has worked well for some products. legal and eThiCal iSSUeS WiTh maRKeT TargeTS Marketers must target carefully to avoid consumer backlash. Some consumers resist being labeled.79 Singles may reject single-serve food packaging if they don't want to be reminded they are eating alone. Elderly consumers who don't feel their age may not appreciate products that label them "old." Market targeting also can generate public controversy when marketers take unfair advantage of vulnerable groups (such as children) or disadvantaged groups (such as inner-city residents) or promote potentially harmful products. The cereal industry has been criticized through the years for marketing efforts directed toward children. Critics worry that high-powered appeals presented by lovable animated characters will overwhelm children's de- fenses and lead them to want sugared cereals or poorly balanced breakfasts. Toy marketers have similarly been criticized. A key area of concern for many consumer protection advocates is the millions of kids who are online, as discussed in "Marketing Memo: Protecting Kids Online." Not all attempts to target children, minorities, or other special segments draw criticism. Colgate-Palmolive's Colgate Junior toothpaste has special features designed to get children to brush longer and more often. Thus, the issue is not who is targeted, but how and for what purpose. Socially responsible marketing calls for targeting that serves not only the company's interests but also the interests of those targeted. This is the case many companies make in marketing to the nation's preschoolers. With nearly one in four youngsters under the age of five attending some kind of organized child care, they feel the potential market—in- cluding kids and parents—is too great to pass up.80 So in addition to standards such as at gasels, gerbil cages, idenTifying MARkeT SegMenTS And TARgeTS | chapter 9 269 With the explosion of cell phones, tablets, software apps, and social networking sites, an important concern is protecting unknowing and unsuspecting children in an increasingly complex technological world. The 8-to-12 tween market today is highly mobile and happy to share locations via an app and communicate with others by phone, leading one trendspotting expert to characterize them as "SoLoMo" (Social Local Mobile). Only one in five parents, however, uses basic content control features on smart phones, tablets, and game consoles. Thus, establishing ethical and legal boundaries in marketing to children online—and offline—continues to be a hot topic. The Children's Online Privacy Protection Act (COPPA) was designed to better control the online collection of personal information from children under 13. It became law in July 2000 and helped ensure that Web sites targeted to children could not inappropriately collect names, e-mail addresses, and other sensitive information. Updates to the law in 2010 reflect the rapid technological developments that allowed marketers to collect so much more information from kids. COPPA spells out "what a Web site operator must include in a privacy policy, when and how to seek verifiable consent from a parent and what responsibilities an operator has to protect children's privacy and safety online." The act forbids the collection of certain information about children unless a parent first gives permission. That information includes photos, videos, and audio files containing a human image or voice, as well as location data generated by a cell phone. "Personal identifiers" that allow a person to be tracked over time and across Web sites were deemed personal infor- mation and covered by the law. The updated law also clarified that parental consent could be verified through electronically scanned consent forms, video conferencing, and e-mail. Some software developers were opposed to the amended COPPA, complaining that the cost of compliance and the risk of violations were too great. Penalties can be stiff. In 2008, Sony BMG Music Entertainment agreed to pay $1 million as part of a settlement with the FTC after being charged with improp- erly collecting information from 30,000 children under 13 on its Web sites. Mrs. Fields Cookies and Hershey Foods were fined early on. Despite the restrictions of COPPA and other regulations, businesses continue to eye the potentially rewarding youth market. eBay has explored allowing consumers under 18 to set up accounts with parental authorization and shop, with some safeguards to prevent access to certain goods and products. Facebook's stated interest in allowing children 12 and under to join its site has met with criticism from consumer, privacy, and child advocacy groups. Sources: Anton Troianovski, "New Rules on Kids' Web Ads," Wall Street Journal, August 1, 2012; www.ftc.gov/ogc/coppa1.htm; "How to Comply with the Children's Online Privacy Protection Rule, www.business.ftc.gov/documents/; Richard Lardner, "Government Issues New Online Child Privacy Rules," www.news.terra.com, December 19, 2012; Greg Bensinger, "eBay to Target Under-18 Set," Wall Street Journal, July 26, 2012; Tim Peterson, "Tweenage Wasteland," Adweek, June 25, 2012, p. 11; Steven M. Goldman, "The Social Tween," Adweek, June 25, 2012, p. T1; Heather Chaet, "The Tween Machine," Adweek, June 25, 2012; Bruce Livingston, "Does Technology Change the Ethics of Marketing to Children," Fast Company, April 11, 2013. Protecting Kids Onlinemarketing memo 3. Business marketers can use all these variables along with operating variables, purchasing approaches, and situ- ational factors. 4. To be useful, market segments must be measurable, substantial, accessible, differentiable, and actionable. 5. We can target markets at four main levels: mass, multi- ple segments, single (or niche) segment, and individuals. Summary 1. Target marketing includes three activities: market seg- mentation, market targeting, and market positioning. Market segments are large, identifiable, distinct groups within a market. 2. The major segmentation variables for consumer mar- kets are geographic, demographic, psychographic, and behavioral. Marketers use them singly or in combination. and blocks, the nation's preschools are likely to have Care Bear worksheets, Pizza Hut reading programs, and Nickelodeon magazines. Teachers and parents are divided about the ethics of this increasingly heavy preschool marketing push. Some side with groups such as Campaign for a Commercial-Free Childhood, whose members feel preschoolers are in- credibly susceptible to advertising and that schools' endorsements of products make children believe the product is good for them—no matter what it is. Yet many preschools and day care centers operating on tight budgets welcome the free resources marketers offer.81 270 PART 4 | Building STRong BRAndS MyMarketingLab go to mymktlab.com to complete the problems marked with this icon as well as for additional auto-graded and assisted-graded writing questions. Marketing Discussion Marketing Segmentation Schemes Think of various product categories. In each segmenta- tion scheme, to which segment do you feel you belong? How would marketing be more or less effective for you de- pending on the segment? How would you contrast demo- graphic and behavioral segment schemes? Which one(s) do you think would be most effective for marketers trying to sell to you? Applications Marketing Debate Is Mass Marketing Dead? With marketers increasingly adopting more and more re- fined market segmentation schemes—fueled by the Internet and other customization efforts—some claim mass market- ing is dead. Others counter there will always be room for large brands employing marketing programs to target the mass market. Take a position: Mass marketing is dead versus Mass marketing is still a viable way to build a profitable brand. key player in reestablishing Hong Kong's economy after World War II. By the end of the 20th century, it had ac- quired numerous companies and expanded its reach with a "three-legged stool" strategy; the three legs represented a foothold in the United Kingdom, the United States, and Asia. HSBC continued to grow around the world for many years, and by the early 21st century, it was the second- largest bank in the world. HSBC has successfully grown its business under a single global brand and for years kept the tagline "The World's Local Bank." The aim was to link its huge inter- national size with the close relationships it nurtures in each of the countries in which it operates. Sir John Bond, HSBC's former chairman, said, "Our position as the Marketing Excellence >> HSBC HSBC, originally known as the Hong Kong and Shanghai Banking Corporation Limited, was established in 1865 to finance the growing trade between China and the United Kingdom. Over the years, the bank has pioneered many modern banking practices in different countries. For ex- ample, it was the first bank in Thailand and printed the country's first banknotes. During the early 20th century, HSBC issued significant loans to several national govern- ments, including China, which helped finance projects such as its railway development. The bank was also a 6. A mass market targeting approach is adopted only by the biggest companies. Many companies target mul- tiple segments defined in various ways such as vari- ous demographic groups who seek the same product benefits. 7. A niche is a more narrowly defined group. Globalization and the Internet have made niche marketing more fea- sible for many. 8. More companies now practice individual and mass cus- tomization. The future is likely to see more individual consumers take the initiative in designing products and brands. 9. Marketers must choose target markets in a socially re- sponsible manner at all times. idenTifying MARkeT SegMenTS And TARgeTS | chapter 9 271 trade in dollars, euros or renminbi, global markets are opening up to everyone. At HSBC we can connect your business to new opportunities on six continents—in more than 90 currencies." HSBC has traditionally focused much of its advertis- ing in airports but also sponsors more than 250 cultural and sporting events, with a special concentration on helping youth, growing education, and embracing com- munities. These sponsorships allow the company to learn from different people and cultures around the world. The bank gained insight into how to target con- sumer niches with unique products and services. For example, it found a little-known product area growing at 125 percent a year: pet insurance. HSBC now distributes nationwide pet insurance to its depositors through its HSBC Insurance agency. In Malaysia, it offered a "smart card" and no-frills credit cards to the underserved student segment and targeted high-value customers with special "Premium Center" bank branches. Today, HSBC remains one of the largest banks in the world, with four global businesses: retail banking and wealth management, commercial banking, global banking and markets, and global private banking. It serves 60 million customers through 6,600 branches in 80 countries and earned $22.6 billion in profit in 2013, with a brand value of $11.4 billion, according to Interbrand/BusinessWeek global brand rankings. Questions 1. What were the benefits and drawbacks of HSBC's position- ing itself as the "World's Local Bank"? 2. Evaluate HSBC's recent business and marketing shift. How do you think its current ad campaign and tagline, "HSBC helps you unlock the world's poten- tial," resonate with its key audiences? Sources: Carrick Mollenkamp, "HSBC Stumbles in Bid to Become Global Deal Maker," Wall Street Journal, October 5, 2006; Kate Nicholson, "HSBC Aims to Appear Global yet Approachable," Campaign, December 2, 2005, p. 15; Deborah Orr, "New Ledger," Forbes, March 1, 2004, pp. 72–73; "HSBC's Global Branding Ideas Explains Review Decision," Adweek, January 19, 2004; "Now Your Customers Can Afford to Take Fido to the Vet," Bank Marketing, December 2003, p. 47; Kenneth Hein, "HSBC Bank Rides the Coattails of Chatty Cabbies," Brandweek, December 1, 2003, p. 30; Sir John Bond and Stephen Green, "HSBC Strategic Overview," presentation to investors, November 27, 2003; "Lafferty Retail Banking Awards 2003," Retail Banker International, November 27, 2003, pp. 4–5; "Ideas That Work," Bank Marketing, November 2003; "HSBC Enters the Global Branding Big League," Bank Marketing International, August 2003; Normandy Madden, "HSBC Rolls Out Post-SARS Effort," Advertising Age, June 16, 2003, p. 12; Douglas Quenqua, "HSBC Dominates Ad Pages in New York Magazine Issue," New York Times, October 20, 2008, pg. B.6; Kimia M. Ansari, "A Different Point of View: HSBC." Unbound Edition, July 10, 2009; "The Evolution of 'Your Point of View,' press release, October 20, 2008; Fortune, Global 500; Alex Brownsell, "HSBC's Chris Clark on a New Era for the Bank's Advertising," Marketingmagazine.co.uk, May 31, 2012; "Best Global Brands 2012," Interbrand; HSBC.com; 2013 HSBC Annual Report. world's local bank enables us to approach each country uniquely, blending local knowledge with a worldwide op- erating platform." HSBC launched one global campaign titled "Different Values," which embraced this exact notion of understanding multiple viewpoints and different in- terpretations. Print ads showed the same picture three times with a different interpretation in each. For ex- ample, an old classic car appeared with the words freedom, status symbol, and polluter. Next to the pic- ture the copy read, "The more you look at the world, the more you realize what one person values may be different from the next." In another set of print ads, the word accomplishment is first shown on a picture of a woman winning a beauty pageant, then an as- tronaut walking on the moon, and a young child tying his sneaker. The copy read, "The more you look at the world, the more you realize what really matters to peo- ple." Tracy Britton, head of marketing for HSBC Bank, USA, explained the strategy behind the campaign: "It encapsulates our global outlook that acknowledges and respects that people value things in very different ways. HSBC's global footprint gives us the insight and the opportunity not only to be comfortable, but con- fident in helping people with different values achieve what's really important to them." HSBC revised its business strategy in 2011, con- solidating in underperforming markets and investing in growth markets and businesses. As a result, it made a strategic shift in its branding efforts, moving away from the familiar "World's Local Bank" message and introduc- ing "HSBC helps you unlock the world's potential." HSBC hoped to communicate how it connects local businesses to the world economy and, ultimately, how it focuses on the business elements that affect the world of the future. Chris Clark, HSBC's marketing director, explained that the new ads and campaign "are symptomatic of a shift from pure brand-led advertising to a more product-driven approach." In one television ad, a young girl and her father set up a lemonade stand advertising lemonade for 50 cents. As customers passing by scramble to find a few quarters, the girl explains (in a different language) that she accepts other global currencies, including Hong Kong dollars and Brazilian reals. The voiceover says, "At HSBC we believe that in the future even the smallest business will be mul- tinational." The ads were meant to make consumers feel reassured about banking with HSBC. In a corresponding print ad, a lemonade stand sign displayed the cost of a glass as 50¢, €0.4, and ¥3. The copy read, "Whether you 272 PART 4 | Building STRong BRAndS less about the bragging rights of the BMW brand and instead desired a variety of design, size, price, and style choices. As a result, the company took several steps to grow its product line by targeting specific market seg- ments. This resulted in unique premium-priced cars such as SUVs, convertibles, and roadsters, as well as less expensive compact cars like the 1 Series. In addition, BMW redesigned its 3, 5, and 7 Series cars, making them unique in appearance yet maintaining their exceptional performance. BMW's full range of cars now includes the 1 Series, 3 Series, 5 Series, 6 Series, 7 Series, X Series, Z4 Roadster, M Series, Hybrids, and BMWi. BMW created the lower-priced 1 Series and X1 SUV to target the "modern mainstream," a group who are also family-focused and active but had previously avoided BMWs because of their premium price. The 1 Series reached this group with its lower price point, sporty de- sign, and luxury brand. The X1 and X3 also hit home with a smaller, less expensive SUV design. The redesign of the 7 Series, BMW's most luxuri- ous car, targeted a group called "upper conservatives." These wealthy, traditional consumers don't usually like sportier cars, so BMW added electronic components such as multiple options to control the windows, seats, airflow, and lights, a push-button ignition, and night vi- sion, all controlled by a point-and-click system called iDrive. These enhancements added comfort and luxury, attracting drivers away from competitors like Jaguar and Mercedes. BMW successfully launched the X Series by targeting "upper liberals" who had achieved success in the 1990s and gone on to have children and take up active pursuits like biking, golf, and skiing. These consum- ers needed a bigger car for their active lifestyles and growing families, so BMW created a high-performance luxury SUV. BMW refers to its SUVs as sport activity vehicles in order to appeal even more to these active consumers. BMW introduced convertibles and roadsters to target "post-moderns," a high-income group that continues to attract attention with more showy, flamboyant cars. Marketing Excellence >> BMW BMW is the ultimate driving machine. Manufactured by the German company Bayerische Motoren Werke AG, BMW stands for both performance and luxury. The com- pany was founded in 1916 as an aircraft-engine manu- facturer and produced engines during World Wars I and II. It evolved into a motorcycle and automobile maker by the mid-20th century, and today it is an internationally respected company and brand with $106 billion in sales in 2012.* BMW's logo is one of the most distinctive and glob- ally recognized symbols ever created. The signature BMW roundel looks like a spinning propeller blade set against a blue sky background—originally thought to be a tribute to the company's founding days as an aircraft-engine manufacturer. Recently, however, a New York Times reporter revealed that the logo, which fea- tures the letters BMW at the top of the outer ring and a blue-and-white checkered design in the inner ring, was trademarked in 1917 and meant to show the col- ors of the Free State of Bavaria, where the company is headquartered. BMW's growth exploded in the 1980s and 1990s, when it successfully targeted the growing market of baby boomers and professional yuppies who put work first and wanted a car that spoke of their success. BMW gave them sporty sedans with exceptional performance and a brand that stood for prestige and achievement. The cars, which came in a 3, 5, or 7 Series, were basi- cally the same design in three sizes. It was at this time that yuppies made Beemer and Bimmer the slang terms for BMW's cars and motorcycles, popular names still used today. At the turn of the century, consumers' attitudes to- ward cars changed. Research showed that they cared *BMW Group includes BMW, MINI, and Rolls-Royce brands. idenTifying MARkeT SegMenTS And TARgeTS | chapter 9 273 Questions 1. How does BMW segment its consumers? Why does it work for BMW? 2. What does BMW do well to market to each seg- ment group? Where could it improve its marketing strategy? 3. Should BMW ever change its tagline, "The Ultimate Driving Machine"? Why or why not? Sources: Mark Clothier, "Mercedes Outlasts BMW's Late Surge to Capture U.S. Luxury Crown," www.bloomberg.com, January 4, 2014; Stephen Williams, "BMW Roundel: Not Born from Planes," New York Times, January 7, 2010; Gail Edmondson, "BMW: Crashing the Compact Market," BusinessWeek, June 28, 2004; Neil Boudette, "BMW's Push to Broaden Line Hits Some Bumps in the Road," Wall Street Journal, January 10, 2005; Boston Chapter BMW Club Car of America, ; Rupal Parekh, "BMW Changes Gears with New Campaign from KBS&P," Advertising Age, January 6, 2012; BMW.com; BMWgroup.com; BMW 2013 Annual Report, Company History. BMW's 6 Series, a flashier version of the high-end 7 Series, also targeted this group. BMW uses a wide range of advertising tactics to reach each of its target markets. However, the com- pany's U.S. tagline, "The Ultimate Driving Machine," has remained consistent since it first launched there in 1974. During that time, sales have grown to more than 300,000 units in the United States in 2013. In recent years, BMW has returned to emphasizing performance over status, stating, "We only make one thing, the ultimate driving machine." BMW owners are very loyal to the brand, and enthu- siasts host an annual Bimmerfest each year to celebrate their cars. The company nurtures these loyal consumers and continues to research, innovate, and reach out to specific segment groups year after year. 274 In This Chapter, We Will Address the Following Questions 1. How can a firm develop and establish an effective positioning in the market? (p. 275) 2. How are marketers identify and analyze competition? (p. 276) 3. How are brands successfully differentiated? (p. 278) 4. How do firms communicate their positioning? (p. 286) 5. What are some alternative approaches to positioning? (p. 291) 6. What are the differences in positioning and branding for a small business? (p. 292) DirecTV has established a unique position in the marketplace as the world's leading provider of digital television entertainment services. Source: Courtesy of DIRECTV MyMarketingLab™ Improve Your Grade! Over 10 million students improved their results using the Pearson MyLabs. Visit mymktlab.com for simulations, tutorials, and end-of-chapter problems. 275 As the success of DirecTV demonstrates, a company can reap the benefits of carving out a unique position in the market- place. Creating a compelling, well-differentiated brand position requires a keen understanding of consumer needs and wants, company capabilities, and competitive actions. It also requires discipline but creative thinking. In this chapter, we outline a process by which marketers can uncover the most powerful brand positioning. No company can win if its products and services resemble every other product and offering. As part of the strategic brand management process, each offering must represent the right kinds of things in the minds of the target market. Consider how DirecTV has positioned itself.1 Crafting the Brand Positioning 10 Launched a little more than two decades ago, DirecTV now has more than 32 million subscribers in the United States and Latin America. The direct-broadcast satellite service provider faces competition on a number of fronts: from classic cable companies (Comcast and TimeWarner Cable), from other direct broadcast satellite service providers (Dish), and from alternate ways to watch television digitally through downloads and streaming (Hulu, Netflix, and Amazon). The world's leading provider of digital television entertainment services, DirecTV carries the slogan "Don't Just Watch TV, DirecTV," reflecting the unique po- sitioning it has crafted thanks to a combination of features not easily matched by any competitor. Three pillars of that positioning are captured by its claims to "state-of-the-art technology, unmatched programming, and industry leading customer service." The company puts much emphasis on its comprehensive set of sports packages, its wide array of HD channels, and its broad broadcast platform that lets customers watch programming on their TVs at home and on their laptops, tablets, and cell phones. With its Genie service, users can record as many as five shows at once. In exaggerated fashion, its "Get Rid of Cable" TV ad campaign shows how customers who get mad at cable have their lives turn for the worse through a series of unfortunate events. DirecTV has made a strategic targeting shift to focus on "high quality" subscrib- ers: loyal customers who purchase premium services, pay their bills on time, and call less often to complain. Launched a little more than two decades ago, DirecTV now has more than 32 million subscribers in Developing a Brand Positioning All marketing strategy is built on segmentation, targeting, and positioning (STP). A company discovers differ- ent needs and groups of consumers in the marketplace, targets those it can satisfy in a superior way, and then positions its offerings so the target market recognizes its distinctive offerings and images. By building customer advantages, companies can deliver high customer value and satisfaction, which lead to high repeat purchases and ultimately to high company profitability. UnderstandIng PositIonIng and ValUe ProPositIons Positioning is the act of designing a company's offering and image to occupy a distinctive place in the minds of the target market.2 The goal is to locate the brand in the minds of consumers to maximize the potential benefit to the firm. A good brand positioning helps guide marketing strategy by clarifying the brand's essence, identifying the goals it helps the consumer achieve, and showing how it does so in a unique way. Everyone in the organiza- tion should understand the brand positioning and use it as context for making decisions. 276 PART 4 | Building STRong BRAndS A useful measure of the effectiveness of the organization's positioning is the brand substitution test. If, in some marketing activity—an ad campaign, a viral video, a new product introduction—the brand were replaced by a competitive brand, then that marketing activity should not work as well in the marketplace. A well-positioned brand should be distinctive in its meaning and execution. If a sport or music sponsorship, for example, would work as well if it were for a leading competitor, then either the positioning is not sharply defined well enough or the sponsorship as executed does not tie closely enough to the brand positioning. A good positioning has one foot in the present and one in the future. It needs to be somewhat aspirational so the brand has room to grow and improve. Positioning on the basis of the current state of the market is not forward- looking enough, but at the same time, the positioning cannot be so removed from reality that it is essentially unob- tainable. The real trick is to strike just the right balance between what the brand is and what it could be. One result of positioning is the successful creation of a customer-focused value proposition, a cogent reason why the target market should buy a product or service. As introduced in Chapter 1, a value proposition captures the way a product or service's key benefits provide value to customers by satisfying their needs. Table 10.1 shows how three companies—Hertz, Volvo, and Domino's—have defined their value proposition through the years with their target customers.3 Positioning requires that marketers define and communicate similarities and differences between their brand and its competitors. Specifically, deciding on a positioning requires: (1) choosing a frame of reference by identifying the target market and relevant competition, (2) identifying the optimal points-of-parity and points-of-difference brand associations given that frame of reference, and (3) creating a brand mantra summarizing the positioning and essence of the brand. Choosing a Competitive Frame of Reference The competitive frame of reference defines which other brands a brand competes with and which should thus be the focus of competitive analysis. Decisions about the competitive frame of reference are closely linked to target market decisions. Deciding to target a certain type of consumer can define the nature of competition because cer- tain firms have decided to target that segment in the past (or plan to do so in the future) or because consumers in that segment may already look to certain products or brands in their purchase decisions. IdentIfyIng CompetItors A good starting point in defining a competitive frame of reference for brand positioning is category membership—the products or sets of products with which a brand competes and that function as close substitutes. It would seem a simple task for a company to identify its competitors. PepsiCo knows Coca-Cola's Dasani is a major bottled-water competitor for its Aquafina brand; Wells Fargo knows Bank of America is a major banking competitor; and Petsmart.com knows a major online retail competitor for pet food and supplies is Petco.com. The range of a company's actual and potential competitors, however, can be much broader than the obvious. To enter new markets, a brand with growth intentions may need a broader or maybe even a more aspirational com- petitive frame. And it may be more likely to be hurt by emerging competitors or new technologies than by current competitors. The energy-bar market created by PowerBar ultimately fragmented into a variety of subcategories, including those directed at specific segments (such as Luna bars for women) and some possessing specific attributes (such table 10.1 Examples of Value Propositions Company and Product Target Customers Value Proposition Hertz (car rental) Busy professionals Fast, convenient way to rent the right type of a car at an airport Volvo (station wagon) Safety-conscious upscale families The safest, most durable wagon in which your family can ride Domino's (pizza) Convenience-minded pizza lovers A delicious hot pizza, delivered promptly to your door CRAfTing ThE BRAnd PoSiTioning | chapter 10 277 as the protein-laden Balance and the calorie-control bar Pria). Each represented a subcategory for which PowerBar may not be as relevant.4 Firms should broaden their competitive frame to invoke more advantageous comparisons. Consider these examples: • In the United Kingdom, the Automobile Association positioned itself as the fourth "emergency service"—along with police, fire, and ambulance—to convey greater credibility and urgency. • The International Federation of Poker is attempting to downplay some of the gambling image of poker to emphasize the similarity of the card game to other "mind sports" such as chess and bridge.5 • The U.S. Armed Forces changed the focus of its recruitment advertising from the military as patriotic duty to the military as a place to learn leadership skills—a much more rational than emotional pitch that better competes with private industry.6 We can examine competition from both an industry and a market point of view.7 An industry is a group of firms offering a product or class of products that are close substitutes for one another. Marketers classify industries according to several different factors, such as the number of sellers; degree of product differentiation; presence or absence of entry, mobility, and exit barriers; cost structure; degree of vertical integration; and degree of globalization. Using the market approach, we define competitors as companies that satisfy the same customer need. For example, a customer who buys a word-processing software package really wants "writing ability"—a need that can also be satisfied by pencils, pens, or, in the past, typewriters. Marketers must overcome "marketing myopia" and stop defining competition in traditional category and industry terms.8 Coca-Cola, focused on its soft drink business, missed seeing the market for coffee bars and fresh-fruit-juice bars that eventually impinged on its soft-drink business. The market concept of competition reveals a broader set of actual and potential competitors than competition defined in just category terms. Jeffrey Rayport and Bernard Jaworski suggest profiling a company's direct and indirect competitors by mapping the buyer's steps in ob- taining and using the product. This type of analysis highlights both the opportunities and the chal- lenges a company faces.9 analyzIng CompetItors Chapter 2 described how to conduct a SWOT analysis that includes a competitive analysis. A company needs to gather information about each competitor's real and perceived strengths and weaknesses. Table 10.2 shows the results of a company survey that asked customers to rate its three competitors, A, B, and C, on five attributes. Competitor A turns out to be well known and respected for producing high-quality products sold by a good sales force, but poor at providing product availability and technical assistance. Competitor B is good across the board and excellent in product availability and sales force. Competitor C rates poor to fair on most attributes. This result suggests that in its positioning, the company could attack Competitor A on product availability and technical assistance and Competitor C on almost anything, but it should not attack B, which has no glaring weaknesses. As part of this com- petitive analysis for positioning, the firm should also ascertain the strategies and objectives of its primary competitors. The U.S. Armed Forces is putting more emphasis on its opportunities for leadership and career development vs. patriotic appeals for serving. So ur ce : © R G B V en tu re s LL C d ba S up er St oc k/ A la m y The International Federation of Poker is putting more emphasis on the intellectual rewards from playing poker vs. the thrill from gambling. So ur ce : © B le nd Im ag es /A la m y 278 PART 4 | Building STRong BRAndS Once a company has identified its main competitors and their strategies, it must ask: What is each competitor seeking in the marketplace? What drives each competitor's behavior? Many factors shape a competitor's objec- tives, including size, history, current management, and financial situation. If the competitor is a division of a larger company, it's important to know whether the parent company is running it for growth or for profits, or milking it.10 Finally, based on all this analysis, marketers must formally define the competitive frame of reference to guide positioning. In stable markets where little short-term change is likely, it may be fairly easy to define one, two, or perhaps three key competitors. In dynamic categories where competition may exist or arise in a variety of different forms, multiple frames of reference may be present, as we discuss below. IdentIfyIng Potential Points-of-Difference and Points-of-Parity Once marketers have fixed the competitive frame of reference for positioning by defining the customer target market and the nature of the competition, they can define the appropriate points-of-difference and points-of-parity associations.11 poInts-of-dIfferenCe Points-of-difference (PODs) are attributes or benefits that consumers strongly associate with a brand, positively evaluate, and believe they could not find to the same extent with a competitive brand. Associations that make up points-of-difference can be based on virtually any type of attribute or benefit.12 Louis Vuitton may seek a point-of-difference as having the most stylish handbags, Energizer as having the longest-lasting battery, and Fidelity Investments as offering the best financial advice and planning. Strong brands often have multiple points-of-difference. Some examples are Apple (design, ease-of-use, and irreverent attitude), Nike (performance, innovative technology, and winning), and Southwest Airlines (value, reliability, and fun personality). Creating strong, favorable, and unique associations is a real challenge, but an essential one for competitive brand positioning. Although successfully positioning a new product in a well-established market may seem par- ticularly difficult, Method Products shows that it is not impossible.13 Method PrOducts The brainchild of former high school buddies Eric Ryan and Adam Lowry, Method Products was started with the realization that although cleaning and household products are sizable categories by sales, taking up an entire supermarket aisle or more, they are also incredibly boring ones. Method launched a sleek, uncluttered dish soap container that also had a functional advantage—the bottle, shaped like a chess piece, was built to let soap flow out the bottom so users would never have to turn it upside down. This signature product, with its pleasant fragrance, was designed by award-winning industrial designer Karim Rashid. Sustainability also became part of the core of the brand, from sourcing and labor practices to material reduction and the use of nontoxic materials. By creating a line of unique eco-friendly, biodegradable household cleaning products with bright colors and sleek designs, Method grew to a $100 million company in revenues. A big break came with the placement of its product in Target, known for partnering with well-known designers to produce standout products at affordable table 10.2 Customers' Ratings of Competitors on Key Success Factors Customer Awareness Product Quality Product Availability Technical Assistance Selling Staff Competitor A E E P P G Competitor B G G E G E Competitor C F P G F F Note: E = excellent, G = good, F = fair, P = poor. CRAfTing ThE BRAnd PoSiTioning | chapter 10 279 prices. Because of its limited advertising budget, the company believes its attractive packaging and innovative products must work harder to express the brand positioning. Social media campaigns have been used to "put some teeth into the company's "People Against Dirty" slogan and its desire to make full disclosure of ingredients an industry requirement. Method was acquired by Belgium-based Ecover in 2012; its strong European distribution network will help launch the brand overseas. Three criteria determine whether a brand association can truly function as a point-of-difference: desirability, deliverability, and differentiability. Some key considerations follow. • Desirable to consumer. Consumers must see the brand association as personally relevant to them. Select Comfort made a splash in the mattress industry with its Sleep Number beds, which allow consumers to adjust the support and fit of the mattress for optimal comfort with a simple numbering index. Consumers must also be given a compelling reason to believe and an understandable rationale for why the brand can deliver the desired benefit. Mountain Dew may argue that it is more energizing than other soft drinks and support this claim by noting that it has a higher level of caffeine. Chanel No. 5 perfume may claim to be the quintessen- tially elegant French perfume and support this claim by noting the long association between Chanel and haute couture. Substantiators can also come in the form of patented, branded ingredients, such as NIVEA Wrinkle Control Crème with Q10 co-enzyme. • Deliverable by the company. The company must have the internal resources and commitment to feasibly and profitably create and maintain the brand association in the minds of consumers. The product design and marketing offering must support the desired association. Does communicating the desired association require real changes to the product itself or just perceptual shifts in the way the consumer thinks of the product or brand? Creating the latter is typically easier. General Motors has had to work to overcome pub- lic perceptions that Cadillac is not a youthful, modern brand and has done so through bold designs, solid craftsmanship, and active, contemporary images.14 The ideal brand association is preemptive, defensible, and difficult to attack. It is generally easier for market leaders such as ADM, Visa, and SAP to sustain their positioning, based as it is on demonstrable product or service performance, than it is for market leaders such as Fendi, Prada, and Hermès, whose positioning is based on fashion and is thus subject to the whims of a more fickle market. • Differentiating from competitors. Finally, consumers must see the brand association as distinctive and superior to relevant competitors. Splenda sugar substitute overtook Equal and Sweet'N Low to become the leader in its category in 2003 by differentiating itself as a product derived from sugar without the associated Method cleaning products has met with great success from being uniquely positioned on the basis of sustainability and attractive and functional product designs. So ur ce : M et ho d Pr od uc ts , P B C 280 PART 4 | Building STRong BRAndS drawbacks.15 In the crowded energy drink category, Monster has become a nearly $2 billion brand and a threat to category pioneer Red Bull by differentiating itself with its innovative 16-ounce can and an extensive line of products targeting nearly every need state related to energy consumption.16 poInts-of-parIty Points-of-parity (POPs), on the other hand, are attribute or benefit associations that are not necessarily unique to the brand but may in fact be shared with other brands.17 These types of associations come in three basic forms: category, correlational, and competitive. Category points-of-parity are attributes or benefits that consumers view as essential to a legitimate and credible offering within a certain product or service category. In other words, they represent necessary—but not sufficient— conditions for brand choice. Consumers might not consider a travel agency truly a travel agency unless it is able to make air and hotel reservations, provide advice about leisure packages, and offer various ticket payment and delivery options. Category points-of-parity may change over time due to technological advances, legal developments, or con- sumer trends, but to use a golfing analogy, they are the "greens fees" necessary to play the marketing game. Correlational points-of-parity are potentially negative associations that arise from the existence of positive as- sociations for the brand. One challenge for marketers is that many attributes or benefits that make up their POPs or PODs are inversely related. In other words, if your brand is good at one thing, such as being inexpensive, con- sumers can't see it as also good at something else, like being "of the highest quality." Consumer research into the trade-offs consumers make in their purchasing decisions can be informative here. Below, we consider strategies to address these trade-offs. Competitive points-of-parity are associations designed to overcome perceived weaknesses of the brand in light of competitors' points-of-difference. One good way to uncover key competitive points-of-parity is to role-play competitors' positioning and infer their intended points-of-difference. Competitor's PODs will, in turn, suggest the brand's POPs. Regardless of the source of perceived weaknesses, if, in the eyes of consumers, a brand can "break even" in those areas where it appears to be at a disadvantage and achieve advantages in other areas, it should be in a strong—and perhaps unbeatable—competitive position. Consider the introduction of Miller Lite beer—the first major light beer in North America.18 MiLLer Lite The initial advertising strategy for Miller Lite beer had two goals: ensuring parity with key com- petitors in the regular, full-strength beer category by stating that Miller Lite "tastes great," while at the same time creating a point-of-difference around the fact that it contained one-third fewer calories and was thus "less filling." As often hap- pens, the point-of-parity and point-of-difference were somewhat conflicting because consumers tend to equate taste with calories. To overcome potential resistance, Miller employed credible spokespeople, primarily popular former professional athletes, who would presumably not drink a beer unless it tasted good. These ex-jocks humorously debated which of the two product benefits—"tastes great" or "less filling"—was more descriptive of the beer. The ads ended with the clever tag- line "Everything You've Always Wanted in a Beer…and Less." As time went on, the brand positioning evolved to encompass "Miller Time" in its advertising, an emotional appeal about the brand's "sociability" and ability to serve as a catalyst for good times with friends. poInts-of-parIty Versus poInts-of-dIfferenCe For an offering to achieve a point-of-parity on a particular attribute or benefit, a sufficient number of consumers must believe the brand is "good enough" on that dimension. There is a zone or range of tolerance or acceptance with points-of-parity. The brand does not literally need to be seen as equal to competitors, but consumers must feel it does well enough on that particular Miller Lite pioneered the light beer category by successfully establishing a point-of-difference on low calories and a point-of-parity on taste vs. full-strength beers. So ur ce : M ill er C oo rs LL C CRAfTing ThE BRAnd PoSiTioning | chapter 10 281 attribute or benefit. If they do, they may be willing to base their evaluations and decisions on other factors more favorable to the brand. A light beer presumably would never taste as good as a full-strength beer, but it would need to taste close enough to be able to effectively compete. Often, the key to positioning is not so much achieving a point-of-difference as achieving points-of-parity! Visa Versus aMerican exPress Visa's point-of-difference in the credit card category is that it is the most widely available card, which underscores the category's main benefit of convenience. American Express, on the other hand, has built the equity of its brand by highlighting the prestige associated with the use of its card. Visa and American Express now compete to create points-of-parity by attempting to blunt each other's advantage. Visa offers gold and platinum cards to enhance the prestige of its brand, and for years it advertised, "It's Everywhere You Want to Be," showing desirable travel and leisure locations that accept only the Visa card to reinforce both its own exclusivity and its acceptability. American Express has substantially increased the number of merchants that accept its cards and created other value enhancements while also reinforcing its cachet through advertising that showcases celebrities such as Robert De Niro, Tina Fey, Ellen DeGeneres, and Beyoncé as well as promotions for exclu- sive access to special events. mULtiPLe frames of referenCe It is not uncommon for a brand to identify more than one actual or potential competitive frame of reference, if competition widens or the firm plans to expand into new categories. For example, Starbucks could define very distinct sets of competitors, suggesting different possible POPs and PODs as a result:19 1. Quick-serve restaurants and convenience shops (McDonald's and Dunkin' Donuts)—Intended PODs might be quality, image, experience, and variety; intended POPs might be convenience and value. 2. Home and office consumption (Folgers, NESCAFÉ instant, and Green Mountain Coffee K-Cups)—Intended PODs might be quality, image, experience, variety, and freshness; intended POPs might be convenience and value. 3. Local cafés—Intended PODs might be convenience and service quality; intended POPs might be product quality, variety, price, and community. Note that some potential POPs and PODs for Starbucks are shared across competitors; others are unique to a par- ticular competitor. Under such circumstances, marketers have to decide what to do. There are two main options with multiple frames of reference. One is to first develop the best possible positioning for each type or class of competitors and then see whether there is a way to create one combined positioning robust enough to effectively address them all. If competition is too diverse, however, it may be necessary to prioritize competitors and then choose the most important set of competitors to serve as the competitive frame. One crucial consideration is not to try to be all things to all people—that leads to lowest-common-denominator positioning, which is typically ineffective. Finally, if there are many competitors in different categories or subcategories, it may be useful to either develop the positioning at the categorical level for all relevant categories ("quick-serve restaurants" or "super- market take-home coffee" for Starbucks) or with an exemplar from each category (McDonald's or NESCAFÉ for Starbucks). straddle posItIonIng Occasionally, a company will be able to straddle two frames of reference with one set of points-of-difference and points-of-parity. In these cases, the points-of-difference for one category become points-of-parity for the other and vice versa. Subway restaurants are positioned as offering healthy, good-tasting sandwiches. This positioning allows the brand to create a POP on taste and a POD on health with respect to quick-serve restaurants such as McDonald's and Burger King and, at the same time, a POP on health and a POD on taste with respect to health food restaurants and cafés. Straddle positions allow brands to expand their market coverage and potential customer base. Another example is BMW.20 BMW When BMW first made a strong competitive push into the U.S. market in the late 1970s, it positioned the brand as the only automobile that offered both luxury and performance. At that time, consumers saw U.S. luxury cars 282 PART 4 | Building STRong BRAndS as lacking performance and U.S. performance cars as lacking luxury. By relying on the design of its cars, its German heritage, and other aspects of a well-conceived marketing program, BMW was able to simultaneously achieve: (1) a point-of-difference on luxury and a point-of-parity on performance with respect to U.S. performance cars like the Chevy Corvette and (2) a point-of-difference on performance and a point-of-parity on luxury with respect to U.S. luxury cars like Cadillac. The clever slogan "The Ultimate Driving Machine" effectively captured the newly created umbrella category: luxury performance cars. Although a straddle positioning is often attractive as a means of reconciling potentially conflicting consumer goals and creating a "best of both worlds" solution, it also carries an extra burden. If the points-of-parity and points-of-difference are not credible, the brand may not be viewed as a legitimate player in either category. Many early personal digital assistants (PDAs), or palm-sized computers, that unsuccessfully tried to straddle categories ranging from pagers to laptop computers provide a vivid illustration of this risk. choosIng specIfIc POPs and PODs To build a strong brand and avoid the commodity trap, marketers must start with the belief that you can differ- entiate anything. Michael Porter urged companies to build a sustainable competitive advantage.21 Competitive advantage is a company's ability to perform in one or more ways that competitors cannot or will not match. Some companies are finding success. Pharmaceutical companies are developing biologics, medicines produced using the body's own cells rather than through chemical reactions in a lab, because they are difficult for copycat pharmaceutical companies to make a generic version of when they go off patent. Roche Holding will enjoy an advantage of at least three years with its $7 billion-a-year in sales biologic rheumatoid arthritis treatment Rituxan before a biosimilar copycat version is introduced.22 But few competitive advantages are inherently sustainable. At best, they may be leverageable. A leverageable advantage is one that a company can use as a springboard to new advantages, much as Microsoft has lever- aged its operating system to Microsoft Office and then to networking applications. In general, a company that hopes to endure must be in the business of continuously inventing new advantages that can serve as the basis of points-of-difference.23 Marketers typically focus on brand benefits in choosing the points-of-parity and points-of-difference that make up their brand positioning. Brand attributes generally play more of a supporting role by providing "rea- sons to believe" or "proof points" as to why a brand can credibly claim it offers certain benefits. Marketers of Dove soap, for example, will talk about how its attribute of one-quarter cleansing cream uniquely creates the benefit of softer skin. Singapore Airlines can boast about its superior customer service because of its better- trained flight attendants and strong service culture. Consumers are usually more interested in benefits and what exactly they will get from a product. Multiple attributes may support a certain benefit, and they may change over time. By combining the seemingly incompatible benefits of luxury and performance, BMW has found great success in the American automotive market. So ur ce : B M W o f N or th A m er ic a CRAfTing ThE BRAnd PoSiTioning | chapter 10 283 | Fig. 10.1a | (a) Hypothetical Beverage Perceptual Map: Current Perceptions D C B Strong Flavor Light Flavor Traditional Image Contemporary Image Brands: A, B, C, & D Customer Segments Ideal Points: 1, 2, & 3 A 1 2 3 | Fig. 10.1b | (b) Hypothetical Beverage Perceptual Map: Possible Repositioning for Brand A D C B A A'' A' Strong Flavor Light Flavor Traditional Image Contemporary Image Brands: A, B, C, & D Customer Segments Ideal Points: 1, 2, & 3 A 1 2 3 means of differentiation Any product or service benefit that is sufficiently desirable, deliverable, and differentiating can serve as a point-of-difference for a brand. The obvious, and often the most compelling, means of differentiation for consumers are benefits related to performance (Chapters 13 and 14). Swatch offers colorful, fashionable watches; GEICO offers reliable insurance at discount prices. Sometimes changes in the marketing environment can open up new opportunities to create a means of differ- entiation. Eight years after it launched Sierra Mist and with sales stagnating, Pepsico tapped into rising consumer interest in natural and organic products to reposition the lemon-lime soft drink as all-natural with only five ingre- dients: carbonated water, sugar, citric acid, natural flavor, and potassium citrate.24 Often a brand's positioning transcends its performance considerations. Companies can fashion compelling im- ages that appeal to consumers' social and psychological needs. The primary explanation for Marlboro's extraordi- nary worldwide market share (about 30 percent) is that its "macho cowboy" image has struck a responsive chord with much of the cigarette-smoking public. Wine and liquor companies also work hard to develop distinctive images for their brands. Even a seller's physical space can be a powerful image generator. Hyatt Regency Hotels developed a distinctive image with its atrium lobbies. To identify possible means of differentiation, marketers have to match consumers' desire for a benefit with their company's ability to deliver it. For example, they can design their distribution channels to make buying the product easier and more rewarding. Back in 1946, pet food was cheap, not too nutritious, and available exclusively in super- markets and the occasional feed store. Dayton, Ohio–based Iams found success selling premium pet food through regional veterinarians, breeders, and pet stores. perCeptual maps For choosing specific benefits as POPs and PODs to position a brand, perceptual maps may be useful. Perceptual maps are visual representations of consumer perceptions and preferences. They provide quantitative pictures of market situations and the way consumers view different products, services, and brands along various dimensions. By overlaying consumer preferences with brand perceptions, marketers can reveal "holes" or "openings" that suggest unmet consumer needs and marketing opportunities.25 For example, Figure 10.1(a) shows a hypothetical perceptual map for a beverage category. The four brands—A, B, C, and D—vary in terms of how consumers view their taste profile (light versus strong) and personality and imagery (contemporary versus modern). Also displayed on the map are ideal point "configurations" for three 284 PART 4 | Building STRong BRAndS market segments (1, 2, and 3). The ideal points represent each segment's most preferred ("ideal") combination of taste and imagery. Consumers in Segment 3 prefer beverages with a strong taste and traditional imagery. Brand D is well positioned for this segment because the market strongly associates it with both these benefits. Given that none of the competitors is seen as anywhere close, we would expect Brand D to attract many of the Segment 3 customers. Brand A, on the other hand, is seen as more balanced in terms of both taste and imagery. Unfortunately, no market segment seems to really desire this balance. Brands B and C are better positioned with respect to Segments 2 and 3, respectively. • By making its image more contemporary, Brand A could move to A' to target consumers in Segment 1 and achieve a point-of-parity on imagery and maintain its point-of-difference on taste profile with respect to Brand B. • By changing its taste profile to make it lighter, Brand A could move to A'' to target consumers in Segment 2 and achieve a point-of-parity on taste profile and maintain its point-of-difference on imagery with respect to Brand C. Deciding which repositioning is most promising, A' or A'', would require detailed consumer and competitive analy- sis on a host of factors—including the resources, capabilities, and likely intentions of competing firms—to identify the markets where consumers can profitably be served. emotIonal brandIng Many marketing experts believe a brand positioning should have both rational and emotional components. In other words, it should contain points-of-difference and points-of-parity that appeal to both the head and the heart.26 Strong brands often seek to build on their performance advantages to strike an emotional chord with custom- ers. When research on scar-treatment product Mederma found that women were buying it not just for the physical treatment but also to increase their self-esteem, the marketers of the brand added emotional messaging to what had traditionally been a practical message that stressed physician recommendations: "What we have done is supplement the rational with the emotional."27 Kate Spade is another brand that blends functional and emotional in its positioning.28 Kate sPade Although only a little more than 20 years old, Kate Spade has evolved from a bags-only brand to a much more diversified fashion brand. Launched by husband-and-wife team Kate and Andy Spade—who have since sold their stake—the brand was initially known for a tiny, minimalist-looking black bag. In 2007, a new Kate Spade found a consumer sweet spot by skillfully blending form and function in its products. So ur ce : © L ou L in w ei /A la m y CRAfTing The BRAnd PoSiTioning | chapter 10 285 creative director, Deborah Lloyd, brought a stronger style sensibility to help hit the Kate Spade customer sweet spot of being "the most interesting person in the room." With greater emphasis on marrying form and function, the brand expanded into apparel and jewelry and has become the centerpiece of a revamped Liz Claiborne (now known as Fifth & Pacific). Accessories are updated constantly, and there are frequent new merchandise introductions. A men's brand (Jack Spade) and a more casual, affordable fashion brand targeting younger millennium consumers (Kate Spade Saturday) have also been launched. Kate Spade has made a strong e-commerce push to complement its 200-plus stores; 20 percent of sales come from online channels. The company has also made a well-integrated social media foray, using Facebook, Twitter, Instagram, Tumblr, Pinterest, YouTube, FourSquare, and Spotify to reinforce its core brand values of "patterns, colors, fun food and classic New York moments." It has made a move into Europe and Asia and has especially set its sights on China. A person's emotional response to a brand and its marketing will depend on many factors. An increasingly important one is the brand's authenticity.29 Brands such as Hershey's, Kraft, Crayola, Kellogg's, and Johnson & Johnson that are seen as authentic and genuine can evoke trust, affection, and strong loyalty.30 Authenticity also has functional value. Family farmer–owned Welch's—1,150 Concord and Niagara grape farm- ers make up the National Grape Cooperative—is seen by consumers as "wholesome, authentic and real." The brand reinforces those credentials by focusing on its local sourcing of ingredients, increasingly important for consumers who want to know where their foods come from and how they were made.31 By successfully differentiating themselves, emotional brands can also provide financial payoffs. As part of its IPO, the UK mobile phone operator O2 was rebranded from British Telecom's struggling BT Cellnet, based on a powerful emotional campaign about freedom and enablement. When customer acquisition, loyalty, and average revenue soared, the business was quickly acquired by Spanish multinational Telefonica for more than three times its IPO price.32 Brand Mantras To further focus brand positioning and guide the way their marketers help consumers think about the brand, firms can define a brand mantra.33 A brand mantra is a three- to five-word articulation of the heart and soul of the brand and is closely related to other branding concepts like "brand es- sence" and "core brand promise." Its purpose is to ensure that all employees within the organization and all external marketing partners understand what the brand is most fundamentally to represent with consumers so they can adjust their actions accordingly. role of brand mantras Brand mantras are powerful devices. By highlighting points-of-difference, they provide guidance about what products to introduce under the brand, what ad campaigns to run, and where and how to sell the brand. Their influence can even extend beyond these tactical concerns. Brand mantras can guide the most seemingly unrelated or mundane decisions, such as the look of a reception area and the way phones are answered. In effect, they create a mental filter to screen out brand-inappropriate marketing activities or actions of any type that may have a negative bearing on customers' impressions. Brand mantras must economically communicate what the brand is and what it is not. What makes a good brand mantra? McDonald's "Food, Folks, and Fun" captures its brand essence and core brand promise. Two other high- profile and successful examples—Nike and Disney—show the power and util- ity of a well-designed brand mantra. niKe Nike has a rich set of associations with consumers, based on its innovative product designs, its sponsorships of top athletes, its award-winning communications, its competitive drive, and its irreverent attitude. Internally, Nike's brand mantra of "authentic athletic performance" is visibly reinforced by its endorsements of top athletes like champion tennis player Rafael Nadal. So ur ce : © P re ss el ec t/ A la m y 286 PART 4 | Building STRong BRAndS Nike marketers adopted the three-word brand mantra, "authentic athletic performance," to guide their market- ing efforts. Thus, in Nike's eyes, its entire marketing program—its products and the way they are sold—must reflect that key brand value. Over the years, Nike has expanded its brand meaning from "running shoes" to "athletic shoes" to "athletic shoes and apparel" to "all things associated with athletics (including equipment)." Each step of the way, however, it has been guided by its "authentic athletic performance" brand mantra. For ex- ample, as Nike rolled out its successful apparel line, one important hurdle was that the products must be made innovative enough through material, cut, or design to truly benefit top athletes. At the same time, the company has been careful to avoid using the Nike name to brand products that do not fit with the brand mantra (like casual "brown" shoes). disney Disney developed its brand mantra in response to its incredible growth through licensing and product development during the mid-1980s. In the late 1980s, Disney became concerned that some of its characters, such as Mickey Mouse and Donald Duck, were be- ing used inappropriately and becoming overexposed. The characters were on so many products and marketed in so many ways that in some cases it was difficult to discern what could have been the rationale behind the deal to start with. Moreover, because of the broad exposure of the characters in the marketplace, many consumers had begun to feel Disney was exploiting its name. Disney moved quickly to ensure that a consistent image—reinforc- ing its key brand associations—was conveyed by all third-party products and services. To that end, Disney ad- opted an internal brand mantra of "fun family entertainment" to filter proposed ventures. Opportunities that were not consistent with the brand mantra—no matter how appealing—were rejected. As useful as that mantra was to Disney, adding the word "magical" might have made it even more so. desIgnIng a brand mantra Unlike brand slogans meant to engage, brand mantras are designed with internal purposes in mind. Although Nike's internal mantra was "authentic athletic performance," its external slogan was "Just Do It." Here are the three key criteria for a brand mantra. • Communicate. A good brand mantra should clarify what is unique about the brand. It may also need to define the category (or categories) of business for the brand and set brand boundaries. • Simplify. An effective brand mantra should be memorable. For that, it should be short, crisp, and vivid in meaning. • Inspire. Ideally, the brand mantra should also stake out ground that is personally meaningful and relevant to as many employees as possible. For brands anticipating rapid growth, it is helpful to define the product or benefit space in which the brand would like to compete, as Nike did with "athletic performance" and Disney with "family entertainment." Words that describe the nature of the product or service, or the type of experiences or benefits the brand provides, can be critical to identifying appropriate categories into which to extend. For brands in more stable categories where extensions into more distinct categories are less likely to occur, the brand mantra may focus more exclusively on points-of-difference. Other brands may be strong on one, or perhaps even a few, of the brand associations making up the brand mantra. But for it to be effective, no other brand should singularly excel on all dimensions. Part of the key to both Nike's and Disney's success is that for years no competitor could really deliver on the combined promise suggested by their brand mantras. Disney's "fun family entertainment" brand mantra has been an invaluable guide for its product and marketing decisions. So ur ce : © J im N ic ho ls on /A la m y CRAFTing The BRAnd PoSiTioning | chapter 10 287 Establishing a Brand Positioning Once they have fashioned the brand positioning strategy, marketers should communicate it to everyone in the organization so it guides their words and actions. One helpful schematic with which to do so is a brand- positioning bull's-eye. "Marketing Memo: Constructing a Brand Positioning Bull's-eye" outlines one way marketers can formally express brand positioning without skipping any steps. Often a good positioning should have several PODs and POPs. Of those, often two or three really define the competitive battlefield and should be analyzed and developed carefully. A good positioning should also follow the "90–10" rule and be highly applicable to 90 percent (or at least 80 percent) of the products in the brand. Attempting to position to all 100 percent of a brand's product often yields an unsatisfactory "lowest common denominator" result. The remaining 10 percent or 20 percent of products should be reviewed to ensure they have the proper branding strategy and to see how they could be changed to better reflect the brand positioning. CommunICatIng Category membership Category membership may be obvious. Target customers are aware that Maybelline is a leading brand of cosmetics, Cheerios is a leading brand of cereal, Accenture is a leading consulting firm, and so on. When a product is new, marketers must inform consumers of the brand's category membership. Sometimes consumers may know the category membership but not be convinced the brand is a valid member of the category. They may be aware that HP produces digital cameras, but they may not be certain whether HP cameras are in the same class as those made by Canon, Nikon, and Sony. In this instance, HP might find it useful to reinforce category membership. Brands are sometimes affiliated with categories in which they do not hold membership. This approach is one way to highlight a brand's point-of-difference, providing consumers know its actual membership. Instead of putting it in the frozen pizza category, the marketers of DiGiorno's frozen pizza have positioned it in the delivered pizza category with ads that claim "It's Not Delivery, It's DiGiorno!" Similarly, pay channel HBO has developed original, edgy programming to justify its premium fee, adopting the slogan "It's Not TV, It's HBO." marketing memo Constructing a Brand Positioning Bull's-eye A brand bull's-eye provides content and context to improve everyone's understanding of the positioning of a brand in the organization. Here we look at a hy- pothetical Starbucks example. In the inner two circles is the heart of the bull's-eye—key points-of-parity and points-of-difference as well as the brand mantra. Points-of-parity and points-of-difference should be made as specific as possible without being too narrow. A POD of "gives confidence" for P&G's Bounty paper towels—known as the "Quicker Picker-Upper"—is very broad compared to the much more brand-relevant POD of "helps to relieve tense situations." Points-of-parity and points-of-difference should be constructed in terms of the benefits a customer would actually derive from the product or service. "Leading Brand in the Category" as a point-of-difference fails to answer the question: What's in it for the customer? Does being the leading brand give the customer greater peace of mind, greater convenience, access to more innovative products, and/or social approval or self-respect from being associated with a "winner"? Points-of-difference should also be stated in positive, aspirational terms, like "Irresistible Taste," "Superior Value," Tireless Customer Service," and "Unimpeachable Trust." Points-of-parity are often stated in more muted terms to recognize the potential deficiencies they represent, such as "Sufficiently Accessible," "Appropriately Relevant," and "Fairly Priced." In the next circle out are the substantiators or reasons-to-believe (RTB)—attributes or benefits that provide factual or demonstrable support for the points-of-parity and points-of-difference. Finally, the outer circle contains two other useful branding concepts: (1) the brand values, personality, or character— intangible associations that help to establish the tone for the words and actions for the brand; and (2) executional properties and visual identity—more tangible components of the brand that affect the way customers see it. Three boxes outside the bull's-eye provide useful context and interpretation. To the left, two boxes highlight some of the input to the positioning analy- sis. One includes the consumer target and a key insight about consumer attitudes or behavior that significantly influenced the actual positioning; the other provides competitive information about the key consumer need the brand is attempting to satisfy and some competitive products or brands that need suggests. To the right of the bull's-eye, one box offers a "big picture" view of the output—the ideal consumer takeaway if the brand positioning efforts are successful. 288 PART 4 | Building STRong BRAndS The typical approach to positioning is to inform consumers of a brand's membership before stating its point- of-difference. Presumably, consumers need to know what a product is and what function it serves before deciding whether it is superior to the brands against which it competes. For new products, initial advertising often con- centrates on creating brand awareness, and subsequent advertising attempts to create the brand image. Ally Bank tapped into a distrust of financial institutions to stake out a unique positioning. 34 aLLy FInanCiaL In rebranding GMAC Financial as Ally Financial and launching its Ally Bank sub- sidiary, the firm initially ran a campaign featuring a smarmy man in a suit—who symbolically represented the typical bank—being mean to unsuspecting children—who symbolically represented typical bank customers. The idea was to show Ally Bank as simple and direct. One ad had the slick spokesperson sitting with two young girls at a small table ask- ing one of them what she wanted a pony. When the girl said yes, he gave her a small toy pony. The clearly unhappy first girl asked why she didn't get a real pony, and the man answered, in effect, "You didn't ask." Having established initial awareness, the campaign developed its "straightforward" positioning with several follow-up ads relaying a "Your Money Needs an Ally" theme and touting customers' ability to reach humans at Ally Bank instead of machines. In the "Dry Cleaner" ad, seemingly real customers of a dry cleaner are captured via hidden camera as they attempt to cope with a blender that a sign indicates they should use for help. The ad ends with the words "Ally Bank. Helpful People. Not Machines." A Hypothetical Example of a Starbucks Brand Positioning Bull's Eye Consumer Target Discerning coffee drinker Consumer Insight Coffee and the drinking experience is often unsatisfying Consumer Need State Desire for better coffee and a better consumption experience Competitive Product Set Local cafés, fast -food restaurants, & convenience shops Consumer Takeaway Starbucks gives me the richest possible sensory experience drinking coffee Green & Earth colors Siren logo Caring Contemporary Thoughtful Valu es/Personality/Character Executional PropertiesVisu al Ide ntit y Fairly Priced Relaxing, rewarding moments Responsible, locally involved Rich sensory consumption experience Varied, exotic coffee drinks Fresh high- quality coffee 24-hour training of baristas Convenient, friendly service Triple filtrated water Totally integrated system Substantiators Points –of–parity (RTB) Points–of–Differe nce Brand Mantra Rich, Rewarding Coffee Experience Stock options/ health benefits for baristas CRAfTing The BRAnd PoSiTioning | chapter 10 289 Ally has positioned itself as a consumer- friendly banking alternative. So ur ce : U se d w ith p er m is si on fr om A lly F in an ci al In c. There are three main ways to convey a brand's category membership: 1. Announcing category benefits—To reassure consumers that a brand will deliver on the fundamental reason for using a category, marketers frequently use benefits to announce category membership. Thus, industrial tools might claim to have durability, and antacids might announce their efficacy. A brownie mix might at- tain membership in the baked desserts category by claiming the benefit of great taste and support this claim by including high-quality ingredients (performance) or by showing users delighting in its consumption (imagery). 2. Comparing to exemplars—Well-known, noteworthy brands in a category can also help a brand specify its cat- egory membership. When Tommy Hilfiger was an unknown, advertising announced his status as a great U.S. designer by associating him with Geoffrey Beene, Stanley Blacker, Calvin Klein, and Perry Ellis, recognized members of that category. 290 PART 4 | Building STRong BRAndS 3. Relying on the product descriptor—The product descriptor that follows the brand name is often a concise means of conveying category origin. Ford Motor Co. invested more than $1 billion in a radical new 2004 model called the X-Trainer, which combined the attributes of an SUV, a minivan, and a station wagon. To communicate its unique position—and to avoid association with its Explorer and Country Squire models— the vehicle, eventually called Freestyle, was designated a "sports wagon."35 CommunICatIng pops and pods We saw above that one common challenge in positioning is that many of the benefits that make up points-of-parity and points-of-difference are negatively correlated. ConAgra must convince consumers that Healthy Choice frozen foods both taste good and are good for you. Consider these examples of negatively correlated attributes and benefits: Low price vs. High quality Powerful vs. Safe Taste vs. Low calories Strong vs. Refined Nutritious vs. Good tasting Ubiquitous vs. Exclusive Efficacious vs. Mild Varied vs. Simple Moreover, individual attributes and benefits often have positive and negative aspects. For example, consider a long-lived brand such as La-Z-Boy recliners, Burberry outerwear, or the New York Times. The brand's heritage could suggest experience, wisdom, and expertise as well as authenticity. On the other hand, it could also imply be- ing old-fashioned and not contemporary and up to date. Unfortunately, consumers typically want to maximize both the negatively correlated attributes or benefits. Much of the art and science of marketing consists of dealing with trade-offs, and positioning is no different. The best approach clearly is to develop a product or service that performs well on both dimensions. GORE-TEX was able to overcome the conflicting product images of "breathable" and "waterproof " through technological ad- vances. When in-depth and quantitative interviews and focus groups suggested that consumers wanted the ben- efits of technology without the hassles, Royal Philips launched its "Sense and Simplicity" campaign for its Philips brand of electronics, using print, online, and television advertising.36 Other approaches include launching two different marketing campaigns, each devoted to a different brand attribute or benefit; linking the brand to a person, place, or thing that possesses the right kind of equity to establish an attribute or benefit as a POP or POD; and convincing consumers that the negative relationship between attributes and benefits, if they consider it differently, is in fact positive. monitoring Competition Positioning requires an organizational commitment. It is not something that is constantly overhauled or changed. At the same time, it is important to regularly research the desirability, deliverability, and differentiability of the brand's POPs and PODs in the marketplace to understand how the brand positioning might need to evolve or, in relatively rare cases, be completely replaced. In assessing potential threats from competitors, three high-level variables are useful: 1. Share of market—The competitor's share of the target market. 2. Share of mind—The percentage of customers who named the competitor in responding to the statement "Name the first company that comes to mind in this industry." 3. Share of heart—The percentage of customers who named the competitor in responding to the statement "Name the company from which you would prefer to buy the product." There's an interesting relationship among these three measures. Table 10.3 shows these as recorded for three hypothetical competitors. Competitor A enjoys the highest market share but is slipping. Its mind share and heart share are also slipping, probably because it's not providing good product availability and technical assistance. Competitor B is steadily gaining market share, probably due to strate- gies that are increasing its mind share and heart share. Competitor C seems to be stuck at a low level of market, mind, and heart share, probably because of its poor product and marketing attributes. Heritage brands like the New York Times may be seen as old- fashioned and not up-to-date if they are not sufficiently innovative and relevant. So ur ce : © la rry lu ts ch an o/ A la m y CRAfTing The BRAnd PoSiTioning | chapter 10 291 table 10.3 Market Share, Mind Share, and Heart Share Market Share Mind Share Heart Share 2015 2016 2017 2015 2016 2017 2015 2016 2017 Competitor A 50% 47% 44% 60% 58% 54% 45% 42% 39% Competitor B 30 34 37 30 31 35 44 47 53 Competitor C 20 19 19 10 11 11 11 11 8 We could generalize as follows: Companies that make steady gains in mind share and heart share will in- evitably make gains in market share and profitability. Firms such as CarMax, Timberland, Jordan's Furniture, Wegmans, and Toyota are all reaping the benefits of providing emotional, experiential, social, and financial value to satisfy customers and all their constituents.37 Alternative Approaches to Positioning The competitive brand positioning model we've reviewed in this chapter is a structured way to approach po- sitioning based on in-depth consumer, company, and competitive analysis. Some marketers have proposed other, less-structured approaches in recent years that offer provocative ideas on how to position a brand. We highlight a few of those here. Brand narratIves and storytellIng Rather than outlining specific attributes or benefits, some marketing experts describe positioning a brand as telling a narrative or story. Companies like the richness and imagination they can derive from thinking of the story behind a product or service. To help sharpen its marketing and positioning, Jim Beam, with its namesake Jim Beam and Maker's Mark brands, hired The Moth, a group of professional storytellers best known for a weekly public radio broadcast, to kick off a three-day biannual gathering of its marketing teams.38 Randall Ringer and Michael Thibodeau see narrative branding as based on deep metaphors that con- nect to people's memories, associations, and stories.39 They identify five elements of narrative branding: (1) the brand story in terms of words and metaphors, (2) the consumer journey or the way consumers engage with the brand over time and touch points where they come into contact with it, (3) the visual language or expression for the brand, (4) the manner in which the narrative is expressed experientially or the brand engages the senses, and (5) the role the brand plays in the lives of consumers. Based on literary convention and brand experience, they also offer the following framework for a brand story: • Setting. The time, place, and context • Cast. The brand as a character, including its role in the life of the audience, its relationships and responsi- bilities, and its history or creation myth • Narrative arc. The way the narrative logic unfolds over time, including actions, desired experiences, defining events, and the moment of epiphany • Language. The authenticating voice, metaphors, symbols, themes, and leitmotifs Patrick Hanlon developed the related concept of "primal branding" that views brands as complex belief sys- tems. According to Hanlon, diverse brands such as Google, MINI Cooper, the U.S. Marine Corps, Starbucks, Apple, UPS, and Aveda all have a "primal code" or DNA that resonates with their customers and generates their passion and fervor. He outlines seven assets that make up this belief system or primal code: a creation story, creed, icon, rituals, sacred words, a way of dealing with nonbelievers, and a good leader.40 Jim Beam has used professional story-tellers to sharpen its marketing and positioning. So ur ce : © A lk o/ A la m y 292 PART 4 | Building STRong BRAndS cUltUral BrandInG Douglas Holt believes that for companies to build iconic, leadership brands, they must assemble cultural knowl- edge, strategize according to cultural branding principles, and hire and train cultural experts.41 The University of Wisconsin's Craig Thompson views brands as sociocultural templates, citing research investigating brands as cul- tural resources. ESPN Zone restaurants tap into competitive masculinity, for instance, and American Girl dolls tap into mother–daughter relationships and the cross-generational transfer of femininity.42 Experts who see consum- ers actively cocreating brand meaning and positioning even refer to this as "brand Wikification," given that wikis are written by contributors from all walks of life and points of view.43 Positioning and Branding for a Small Business Building brands is a challenge for a small business with limited resources and budgets. Nevertheless, numerous success stories exist of entrepreneurs who have built their brands up essentially from scratch to become power- house brands. Consider the global success of UNIQLO.44 uniqLO Founded by Tadashi Yanai, now the wealthiest person in Japan, UNIQLO (short for Unique Clothing Warehouse) has followed its mission statement and credo of "Made for All" (see Table 10.4) to become a brand with a goal of reaching $50 billion in sales in 2020 and becoming the number-one retailer in the world. UNIQLO stands out … by not standing out! Heavily inspired in its early days by the Gap and its one-time president Mickey Drexler, the company expressly states that it does not want to be in the fashion game of chasing ever-changing trends. With a strong technology emphasis, the company focuses on continual process improvement and the creation of new, innovative products. Its signature mix of fleece, synthetic thermal underwear, down jackets, jeans, and other basics is designed to capture the essence of each type of product. UNIQLO feels it provides the perfect components for its customer's everyday lives, products they can combine in different ways to create their own unique expressions. The company's marketing strategy combines active social media campaigns with aggressive in-store activities to connect with customers and pull them into the stores. By being inclusive and focusing on how its products can fit into consumers' everyday lives, UNIQLO has experienced remarkable growth. So ur ce : L ou -F ot o/ A la m y CRAfTing The BRAnd PoSiTioning | chapter 10 293 table 10.4 UNIQLO Made for All Credo When resources are limited, focus and consistency in marketing programs become critically important. Creativity is also paramount—finding new ways to market new ideas about products to consumers. Here are some specific branding guidelines for small businesses. • Find a compelling product or service performance advantage. As for any brand, demonstrable, meaningful differences in product or service performance can be the key to success. Upstart Dropbox.com has carved out a strong position in the face of a slew of competitors large (Microsoft) and small (Box) that also offer consum- ers a means to conveniently store massive amounts of documents, photos, videos, and other files, in part by virtue of its convenient single-folder approach to accommodate multiple devices for a user.45 • Focus on building one or two strong brands based on one or two key associations. Small businesses often must rely on only one or two brands and key associations as points-of-difference for them. These associations must be consistently reinforced across the marketing program and over time. Rooted in the snowboarding and surfing cultures, Volcom has adopted a "Youth Against Establishment" credo that has resulted in steady sales of its music, athletic apparel, and jewelry. • Encourage product or service trial in any way possible. A successful small business has to distinguish itself in ways consumers can learn about and experience. One way is to encourage trial through sampling, demonstrations, or any means to engage consumers with the brand. See's Candies allows walk-in custom- ers to sample any piece of candy in the shop they choose. As one senior executive noted, "That's the best marketing we have, if people try it, they love it." See's uses all fresh ingredients and no added preservatives to create its enticing flavors.46 • Develop cohesive digital strategy to make the brand "bigger and better." One advantage of the Internet is it allows small firms to have a larger profile than they might otherwise. Urbane Apartments, a property invest- ment and management company from Royal Oak, Michigan, has a virtual prominence that far exceeds its real-world scope. The company boasts a resident-penned blog touting favorite Royal Oak destinations, its own Urbane Lobby social networking site for tenants, and active YouTube, Facebook, and Twitter profiles.47 Sales for Rider Shack surf shop in Los Angeles increased when the firm began to emphasize Facebook and its 294 PART 4 | Building STRong BRAndS Vitaminwater built its brand, in part, through endorsements from popular entertainers and athletes. So ur ce : © R ic ha rd L ev in e/ A la m y Promoted Post service feature as a way to keep the brand in front of people.48 Mobile marketing can be espe- cially important given the local nature of many small businesses.49 • Create buzz and a loyal brand community. Small businesses often rely on word of mouth to establish their positioning, but they can find public relations, social networking, and low-cost promotions and sponsor- ship to be inexpensive alternatives. As discussed in Chapter 5, creating a vibrant brand community among cur- rent and prospective customers can also be a cost-effective way to reinforce loyalty and help spread the word to new prospects. Evernote has several dozen "power users" who serve as passionate ambassadors to spread the word about the personal-organization application brand touted by the online company as the everything-in- one-place "external brain" for its customers.50 • Employ a well-integrated set of brand elements. Tactically, it is important for small businesses to maxi- mize the contribution of all types of brand equity drivers. In particular, they should develop a distinc- tive, well-integrated set of brand elements—brand names, logos, packaging—that enhances both brand awareness and brand image. Brand elements should be memorable and meaningful, with as much creative potential as possible. Innovative packaging can substitute for ad campaigns by capturing attention at the point of purchase. SMARTFOOD introduced its first product without any advertising by means of both a unique package that served as a strong visual symbol on the shelf and an extensive sampling program that encouraged trial. Proper names or family names, which often characterize small businesses, may provide some distinctiveness but can suffer in terms of pronounceability, meaningfulness, memorability, or other branding considerations. If these deficiencies are too great, alternative brand elements should be explored. • Leverage as many secondary associations as possible. Secondary associations—any persons, places, or things with potentially relevant associations—are often a cost-effective, shortcut means to build brand equity, especially those that help to signal quality or credibility. In 1996, J. Darius Bickoff launched an electrolyte-enhanced line of bottled water called Smartwater, followed in two years by the introduction of Vitaminwater, a vitamin-enhanced and flavored alternative to plain bottled water, and by Fruitwater two years after that. Clever marketing including endorsement deals with rapper 50 Cent, singer Kelly Clarkson, actress Jennifer Aniston, and football star Tom Brady helped drive success. Less than 10 years after its launch, Bickoff 's Energy Brands company, also known as Glacéau, was sold to the Coca-Cola company for $4.2 billion in cash.51 • Creatively conduct low-cost marketing research. A variety of low-cost marketing research methods help small businesses connect with customers and study competitors (Chapter 4). One way is to set up course projects at local colleges and universities to access the expertise of both students and professors. Many online options exist too. Unlike major brands that often have more resources at their disposal, small businesses usually do not have the luxury of making mistakes and must design and implement marketing programs much more carefully. CRAfTing The BRAnd PoSiTioning | chapter 10 295 Summary 1. To develop an effective positioning, a company must study competitors as well as actual and potential cus- tomers. Marketers need to identify competitors' strate- gies, objectives, strengths, and weaknesses. 2. Developing a positioning requires identifying a frame of reference—by locating the target market and the nature of the competition—and the optimal points-of-parity and points-of-difference brand associations. 3. A company's closest competitors are those seeking to satisfy the same customers and needs and making similar offers. A company should also pay attention to latent competitors, who may offer new or different ways to satisfy the same needs. Industry- and market-based analyses both help uncover competitors. 4. Points-of-difference are those associations unique to the brand that are also strongly held and favorably evaluated by consumers. These differences may be based directly on the product or service itself or on other considerations related to employees, channels, image, or services. Points-of-difference must be desirable (from a consumer standpoint), deliverable (from a company standpoint), and differentiated (from a competitor standpoint). 5. Points-of-parity are those associations not neces- sarily unique to the brand but perhaps shared with other brands. They help to negate any potential weak- nesses for the brand. Category point-of-parity are associations consumers view as being necessary to a legitimate and credible product offering within a certain category. Correlational points-of-parity are associations designed to overcome perceived weak- nesses or vulnerabilities of the brand. Competitive point-of-parity are associations designed to negate competitors' points-of-difference. 6. Emotional branding is becoming an important way to connect with customers and create differentiation from competitors. Emotional differences are often most pow- erful when they are connected to underlying functional differences. 7. Several different alternative approaches exist to po- sition a product or service. These less structured, more qualitative approaches are based on concepts such as brand narratives, storytelling, and cultural branding. 8. Although small businesses should adhere to many of the branding and positioning principles larger com- panies use, they must place extra emphasis on their brand elements and secondary associations, be more focused, and create buzz for their brand. MyMarketingLab Go to mymktlab.com to complete the problems marked with this icon as well as for additional auto-graded and assisted-graded writing questions. Applications Marketing Debate What Is the Best Way to Position? Marketers have different views about how to position a brand. Some value structured approaches such as the competitive positioning model described in the chapter, which focuses on specific points-of-parity and points-of-difference. Others prefer unstructured approaches that rely more on stories, narratives, and other flowing depictions. Take a position: The best way to position a brand is through a structured approach versus The best way to position a brand is through an unstructured approach. Marketing Discussion Attributes and Benefits Identify other negatively correlated attributes and benefits not described in this chapter. What strategies do firms use to try to position themselves on the basis of pairs of attributes and benefits? 296 PART 4 | Building STRong BRAndS express shipping company, grew into a travel-services company, and eventually evolved into a global payments company with a strong brand image via perceptions such as prestige, trust, security, customer service, international acceptability, and integrity. American Express created the first internationally accepted "Travelers Cheque" in 1891, which used the Marketing Excellence >> American Express American Express is one of the world's most respected brands, known globally for its charge cards, travel ser- vices, and financial services. It began as a 19th-century Louis Vuitton prices are never reduced. In fact, the company recently increased prices as much as 13 per- cent and has been primarily marketing its more expensive line of bags in order to push the concept that owning an LV product is a rare luxury. Strategies like this have built barriers to entry and have helped create a status brand that is resilient even during tough economic times. Louis Vuitton is careful not to dilute its brand through overexposure or over-marketing. This presents the com- pany with the challenge of trying to sell as much as possible while maintaining an aura of exclusivity, luxury, and prestige. Over the years, it has used high-profile celebrities and supermodels to showcase its products, including Madonna, Angelina Jolie, Jennifer Lopez, and images of the late Audrey Hepburn. Marketing campaigns often include a combination of high-fashion celebrities, billboards, print ads, and Vuitton's own international regatta—the Louis Vuitton Cup. In hopes of keeping the brand fresh, the company recently broke tradition and featured celebrities such as Michael Phelps, Steffi Graf, Mikhail Gorbachev, Buzz Aldrin, Bono, and Keith Richards in a noteworthy cam- paign titled "Core Values." It also launched its first televi- sion commercial focused on luxury travel rather than on fashion and formed new partnerships with international artists, museums, and cultural organizations. Today, Louis Vuitton holds a brand value of $22.5 billion according to Forbes and is ranked the 19th most power- ful global brand according to Interbrand. The company is focused on expanding its luxury brand into growing mar- kets such as China and India as well as continuing to grow in already strong markets like Japan and Europe. Questions 1. How does an exclusive brand such as Louis Vuitton grow and sell more while maintaining its level of exclusivity, luxury, and prestige? Does its strategy of increasing prices and relat- ing its core appeal continue to work? 2. Is the counterfeiting of Louis Vuitton always a nega- tive? Are there any consumers of counterfeit products that could be seen as having some positive aspects? Sources: Reena Jana, "Louis Vuitton's Life of Luxury," Business Week, August 6, 2007; Eric Pfanner, "Luxury Firms Move to Make Web Work for Them," New York Times, November 17, 2009; Louis Vuitton, lio.com; William Alden, "LVMH Is Buying the Luxury Clothier Loro," The New York Times, July 8, 2013; Christina Passariello, "Louis Vuitton Sports a Richer Price Tag," Wall Street Journal, April 16, 2013; 2012 LVMH Annual Report; www.louisvuitton.com. Marketing Excellence >> Louis Vuitton Louis Vuitton (LV) is one of the world's legendary brands and synonymous with luxury, wealth, and fashion. Currently the highest-ranking luxury brand in the world, the company is best known for its iconic handbags, leather goods, shoes, watches, jewelry, accessories, and sunglasses. Louis Vuitton opened his first store in Paris in 1854, selling handmade, high-quality trunks and luggage. Word of his skill and craftsmanship traveled quickly, but it wasn't until Napoleon's wife challenged him to "pack the most beautiful clothes in an exquisite way" that he truly made a name for himself in the industry. In 1872, Vuitton introduced a simple, luxurious design that attracted Paris's most elite customers. He also created the signature Damier and Monogram Canvas materials, featuring the famous design still used in most of the company's products today. Throughout the 20th century, the company that car- ries his name continued to grow internationally, expand- ing into the fashion world by the 1950s and reaching $10 million in sales by 1977. In 1987, Louis Vuitton merged with Moët et Chandon and Hennessy, leading manufac- turers of champagne and cognac respectively, and cre- ated LVMH, a luxury goods conglomerate. Louis Vuitton's products stand out in both quality and design. Everything is made with state-of-the-art materials, combining art, precision, and craftsmanship, and tested rigor- ously. For example, the company spends as long as 60 hours making one piece of luggage by hand—the same way it did 150 years ago—and tests zippers 5,000 times before putting them in its luxurious handbags. The legendary LV monogram appears on all its products and continues to stand for the highest quality, premium status, and luxury travel. Until the 1980s, Louis Vuitton products were available in a wide variety of department stores. However, this led to a high rate of counterfeiting—one of the brand's most difficult challenges—so the company now maintains tighter control over its distribution channels. It sells only through its 3,200 authentic Louis Vuitton boutiques, located in upscale shop- ping areas and high-end department stores and run by its own employees and managers. The company limits store openings each year to help maintain a sense of exclusivity. Only recently did it start selling products through louisvuit- ton.com in hopes of reaching new consumers and regions. CRAfTing The BRAnd PoSiTioning | chapter 10 297 in 2004 when the Supreme Court ruled that it could pur- sue relationships with any and all banks, which technicali- ties had prevented it from doing before. Over the next three years, American Express part- nered with banks such as MBNA, Citigroup, UBS, and USAA. The company also launched a handful of strong marketing campaigns and taglines throughout the 2000s to help increase membership. The "My Life. My Card" campaign featured celebrities like Robert De Niro, Ellen DeGeneres, and Tiger Woods, and the "Are You a Cardmember?" campaign served as a call to action to join American Express. The result: Card accounts surged from 60 million in 2003 to 86 million in 2007. Things turned for the worse when the global econ- omy collapsed in 2008 and 2009, but American Express bounced back more quickly than most credit card and financial services companies. The company returned to fo- cusing on an affluent customer base and closed many of its bad accounts. It pushed more cards that carried an annual fee, broadened its marketing focus to bring in affluent new customers, and wooed small businesses with better re- wards and technological innovations. In addition, American Express made big strides in social and digital media, includ- ing a partnership with Twitter that enabled cardholders to make a purchase or receive rewards with a hashtag. American Express has successfully developed and nurtured its strong brand and reputation over the years. Business Week and Interbrand rank it among the top 25 "Most Valuable Brands in the World" year after year, Fortune includes it as one of the top "Most Admired Companies," and J. D. Powers has ranked it the top U.S. payment card company since 2007. These results are testament not only to the company's ongoing innovation in product development and marketing, but also to its commitment to customers, providing them all with out- standing service at any location in the world. Questions 1. Evaluate American Express in terms of its com- petitors. How has its positioning changed over time? Where does American Express face the most competition? 2. Evaluate American Express's integration of its various marketing activities. What recommendations would you make to maximize the contribution to equity of all its business units? Is the corporate brand sufficiently coherent? Sources: Hilary Cassidy, "Amex Has Big Plans for Small Business Unit," Brandweek, January 21, 2002; American Express, "Ellen DeGeneres, Laird Hamilton, Tiger Woods & Robert De Niro Featured in New American Express Global Ad Campaign," November 8, 2004; "The VISA Black Card: A Smart Strategy in Trying Times," BusinessPundit.com, December 8, 2008; "Credit Cards: Loyalty and Retention—US—November 2007," Mintel Reports, November 2007; Scott Cendrowski, "Is It Time to Buy American Express?" CNN Money, April 17, 2009; American Express, "Membership Rewards Program from American Express Adds Practical Rewards for Tough Economic Times," February 19, 2009; "World's Most Admired Companies 2013," Fortune; "Best Global Brands 2013," Interbrand. same signature security system and exchange rate guar- antees employed today. In 1958, the company issued its first charge card—a card that requires customers to pay outstanding balances each month, unlike credit cards that allow for revolving debt. American Express charged a high annual fee compared to its competitors in order to create the feeling of prestige and sense of membership. In the 1960s and 1970s, American Express stepped up its marketing efforts in response to strong competi- tive pressure from Master Charge (now MasterCard) and BankAmericard (later to become Visa). Ad agency Ogilvy & Mather created the now-famous "Don't Leave Home Without It" cue in the early 1970s as a "synergy" tagline. In 1974, the now-familiar blue-box logo first appeared, with the words American Express printed in white. American Express cards as a status symbol signifying success and achievement. The company called its cardholders "card members" and printed the year they became members on their cards, suggesting they held membership in a prestigious club. It maintained this exclusive image through its advertising, impeccable cus- tomer service, and elite promotions and events. During the 1980s, the firm increased the number of merchants that accepted its cards, adding Walmart, and developed new card offerings, including co-branded cards. To communicate the transformation of the 1990s, it launched a corporate ad campaign called "Do More." These efforts helped American Express compete alongside Visa and MasterCard. In addition, the company rebranded its Small Business Services division as "OPEN: The Small Business Network" and added benefits such as flexible payments as well as special offers, partner- ships, and resources for small businesses. At the turn of the century, American Express in- troduced two revolutionary new credit cards, Blue and Centurion Black. Blue contained a chip that enhanced Internet security and targeted younger, tech-savvy con- sumers with a hip image and no annual fee. The Black Card, on the other hand, targeted the most elite clients, who spent more than $150,000 annually and desired amenities such as a 24-hour personal concierge service and invitations to exclusive events. The company also expanded its Membership Rewards program, which at the time was the world's largest card-based rewards program. Cardholders could redeem points for travel, entertainment, gift certificates, and other predetermined offerings. In response, Visa and MasterCard turned up the competitive pressure. Visa took ownership of check cards, which were debit cards that subtracted money for purchases directly from a cardholders' bank account. MasterCard surged in popularity as well when it created the "Priceless" ad campaign, which became a ubiquitous pop-culture reference point. However, American Express scored a huge legal victory against Visa and MasterCard 298 In This Chapter, We Will Address the Following Questions 1. What is a brand, and how does branding work? (p. 299) 2. What is brand equity? (p. 302) 3. How is brand equity built? (p. 309) 4. How is brand equity measured? (p. 315) 5. How is brand equity managed? (p. 318) 6. What is brand architecture? (p. 321) 7. What is customer equity? (p. 328) MyMarketingLab™ Improve Your Grade! Over 10 million students improved their results using the Pearson MyLabs. Visit mymktlab.com for simulations, tutorials, and end-of-chapter problems. Market leader Gatorade has refocused on its core target market of athletes with a broad assortment of new products and a revamped ad campaign. Source: The Gatorade Company 299 Marketers of successful 21st-century brands must excel at the strategic brand management process. Strategic brand management combines the design and implementation of marketing activities and programs to build, measure, and manage brands to maximize their value. It has four main steps:2 • Identifying and establishing brand positioning • Planning and implementing brand marketing • Measuring and interpreting brand performance • Growing and sustaining brand value Chapter 10 reviewed positioning; the latter three topics are discussed in this chapter. Chapter 12 reviews important concepts dealing with competitive dynamics. One of the most valuable intangible assets of a firm is its brands, and it is incumbent on marketing to properly manage their value. Building a strong brand is both an art and a science. It requires careful planning, a deep long-term commitment, and creatively designed and executed marketing. A strong brand commands intense consumer loyalty—and at its heart is a great product or service. Building a strong brand is a never-ending process, as the marketers of Gatorade have found out.1 Creating Brand Equity 11 Gatorade's roots go back nearly five decades. The product was first developed by researchers at the University of Florida to help the school's athletes cope with the debilitating effects of the hot and humid climate. Its subsequent success as the pioneering leader of the sports drink category led PepsiCo to acquire its parent company, Quaker Oats, in 2001 for $13.4 billion in stock. The brand took off even more in the following years as a result of PepsiCo's massive distribution system and a slew of new product and packaging introductions. But when market share dropped from 80 percent to 75 percent and the brand seemed tired. Pepsico decided a change was needed, so Gatorade marketers returned the brand to its roots, walking away from the mass market to focus more on athletes. Their goal was to transcend the $7 billion a year sports drink market and become a major player in the $20 billion a year sports nutrition market. Three new lines, labeled 01 Prime, 02 Perform, and 03 Recover, were introduced for pre-, during-, and post-workout, respectively. Three different markets were targeted as well: the G Series line aimed at "performance" athletes who engaged in scholastic, collegiate, or high-intensity recreational sports; the G Series Fit line targeted less competitive 18- to 34-year-olds who exercised three to four times a week; and the G Series Pro line tar- geted professional athletes. A new advertising tagline, "Win From Within," reflected the new Gatorade brand strategy. Gatorade wanted to be all about what is inside an athlete's body, as much as Nike was seen as being all about what is outside the body. Other changes in- cluded a shift in the brand's communication budget from 90 percent advertising to include a 30 percent digital component. and humid climate. Its subsequent success as the pioneering leader of the sports drink category led PepsiCo to acquire its parent company, Quaker Oats, in 2001 for $13.4 billion in stock. The brand took off even more in the following years as a result of PepsiCo's massive distribution system and a slew of new product and packaging introductions. But when market share dropped What Is Branding? Perhaps the most distinctive skill of professional marketers is their ability to create, maintain, enhance, and pro- tect brands. Consider that other established brands such as Mercedes, Sony, and Nike or new ones like Pure Leaf Teas, Taste Nirvana Coconut Waters, and Alexia All Natural Foods. Some of the hottest brands in recent years have emerged online. Consider the runaway success of Tumblr and Instagram.3 300 PART 4 | Building STRong BRAndS TuMbLr Founded by technical wizard and high-school dropout David Karp, Tumblr is a multimedia platform that allows users to post images, videos, and music in the form of a personal blog and, as the company's motto says, "to follow the world's creators." A combination of publishing platform and social network, Tumblr allows users to express them- selves publicly and then follow the feedback on their posts and other people's on a convenient dashboard. Boasting more than 200 million blogs as of October 2014, the site is seen as a must-have for creative types, with most users between 18 and 24. Formally launched in February 2007, Tumblr was purchased by Yahoo! for approximately $1.1 billion in cash in June 2013 with the hope of making it commercially more successful. Advertisers can create their own blogs for free but have to pay to participate in two popular Tumblr modules: Spotlight (an accounts-to-follow suggestion) and the Radar (editor's picks). InsTagraM Launched in October 2010 by Stanford grads Kevin Systrom and Mike Krieger, Instagram is known for its photo-sharing app that uses filters to make photos from smart-phone cameras look more professional and allows them to be easily uploaded and shared across multiple platforms simultaneously. These highly valued benefits led the brand to quickly attract more than 100 million users, including some big brands such as Nike, MTV, Starbucks, Burberry, and Gucci. Instagram's name was chosen because it combines the concept of "instant" with the notion of conveying information to other people via a "telegram." Its success led Facebook to acquire it in April 2012 for approximately $1 billion in stock and cash. A controversial change in its terms of service in December 2012 led users to think Instagram could sell their photos for use in advertising. In the face of an uproar about a violation of privacy, the founders quickly reverted to the original terms. The American Marketing Association defines a brand as "a name, term, sign, symbol, or design, or a combina- tion of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors." A brand is thus a product or service whose dimensions differentiate it in some way from other products or services designed to satisfy the same need. These differences may be functional, rational, or tangible—related to product performance of the brand. They may also be more symbolic, emotional, or intan- gible—related to what the brand represents or means in a more abstract sense. Branding has been around for centuries as a means to distinguish the goods of one producer from those of another.4 Medieval guilds in Europe required that craftspeople put trademarks on their products to protect themselves and their customers against inferior quality. In the fine arts, branding began with artists signing their works. Brands today play a number of important roles that improve consumers' lives and enhance the financial value of firms. The Role of BRands Brands identify the maker of a product and allow consumers to assign responsibility for its performance to that maker or distributor. Brands perform a number of functions for both consumers and firms. Brands' role For Consumers A brand is a promise between the firm and the consumer. It is a means to set consumers' expectations and reduce their risk. In return for customer loyalty, the firm promises to reliably deliver a predictably positive experience and set of desirable benefits with its products and services. A brand may even be "predictably unpredictable" if that is what consumers expect, but the key is that it fulfills or exceeds customer expectations in satisfying their needs and wants. Consumers may evaluate the identical product differently depending on how it is branded.5 They learn about brands through past experiences with the product and its marketing program, finding out which brands satisfy their needs and which do not. As consumers' lives become more rushed and complicated, a brand's ability to sim- plify decision making and reduce risk becomes invaluable.6 Brands can also take on personal meaning to consumers and become an important part of their identity.7 They can express who consumers are or who they would like to be. For some consumers, brands can even take on human-like characteristics.8 Brand relationships, like any relationship, are not cast in stone, and marketers must be sensitive to all the words and actions that might strengthen or weaken consumer ties.9 Brands' role For Firms Brands also perform valuable functions for firms.10 First, they simplify product handling by helping organize inventory and accounting records. A brand also offers the firm legal protection for CReATing BRAnd equiTy | chapter 11 301 unique features or aspects of the product.11 The brand name can be protected through registered trademarks, manufacturing processes can be protected through patents, and packaging can be protected through copyrights and proprietary designs. These intellectual property rights ensure that the firm can safely invest in the brand and reap the benefits of a valuable asset. A credible brand signals a certain level of quality so satisfied buyers can easily choose the product again.12 Brand loyalty provides predictability and security of demand for the firm, and it creates barriers to entry that make it difficult for other firms to enter the market. Loyalty also can translate into customer willingness to pay a higher price—often even 20 percent to 25 percent more than competing brands.13 Although competitors may duplicate manufacturing processes and product designs, they cannot easily match lasting impressions left in the minds of individuals and organizations by years of favorable product experiences and marketing activity. In this sense, branding can be a powerful means to secure a competitive advantage.14 Sometimes marketers don't see the real importance of brand loyalty until they change a crucial element of the brand, as the classic tale of New Coke illustrates.15 COCa-COLa Battered by a nationwide series of taste-test challenges from sweeter-tasting Pepsi-Cola, Coca-Cola decided in 1985 to replace its old formula with a sweeter variation, dubbed New Coke. The company spent $4 million on market research, and blind taste tests showed Coke drinkers preferred the new, sweeter formula. But the launch of New Coke provoked a national uproar. Market researchers had measured the taste but failed to adequately measure the emotional attachment consumers had to Coca-Cola. There were angry letters, formal protests, and even lawsuit threats to force the retention of "The Real Thing." Ten weeks later, the company reintroduced its century-old formula as "Classic Coke." Efforts to resuscitate New Coke eventually failed, and the brand disappeared around 1992. Ironically, the failed in- troduction of New Coke actually ended up giving the old formula measurably stronger status in the marketplace, with more favorable attitudes and greater sales as a result. For better or worse, branding effects are pervasive.16 One research study that provoked much debate about the effects of marketing on children showed that preschoolers felt identical food items—even carrots, milk, and apple juice—tasted better when wrapped in McDonald's familiar packaging than when in unmarked wrappers.17 To firms, brands represent enormously valuable pieces of legal property that can influence consumer behavior, be bought and sold, and provide their owner the security of sustained future revenues.18 Companies have paid dearly for brands in mergers or acquisitions, often justifying the price premium on the basis of the extra profits ex- pected and the difficulty and expense of creating similar brands from scratch.19 Wall Street believes strong brands result in better earnings and profit performance for firms, which, in turn, create greater value for shareholders.20 The scope of BRandInG How do you "brand" a product? Although firms provide the impetus to brand creation through marketing pro- grams and other activities, ultimately a brand resides in the minds and hearts of consumers. It is a perceptual entity rooted in reality but reflecting the perceptions and idiosyncrasies of consumers. Branding is the process of endowing products and services with the power of a brand. It's all about creating differences between products. Marketers need to teach consumers "who" the product is—by giving it a name and other brand elements to identify it—as well as what the product does and why consumers should care. Branding creates mental structures that help consumers organize their knowledge about products and services in a way that clarifies their decision making and, in the process, provides value to the firm. For branding strategies to be successful and brand value to be created, consumers must be convinced there are meaningful differences among brands in the product or service category. Brand differences often relate to at- tributes or benefits of the product itself. Gillette, Merck, and 3M have led their product categories for decades, due in part to continual innovation. Other brands create competitive advantages through nonproduct-related means. Gucci, Chanel, and Louis Vuitton have become category leaders by understanding consumer motivations and de- sires and creating relevant and appealing images around their stylish products. Successful brands are seen as genuine, real, and authentic in what they sell as well as who they are. A successful brand makes itself an indispensable part of its customers' lives. Once a faded preppy afterthought, J.Crew tripled its revenue to $2.2 billion from 2002 to 2012 by becoming a highly creative force in fashion. By constantly introducing new styles—but retaining a cohesive look—the brand enjoys intense loyalty, numerous fan blogs, and high-profile celebrity supporters like Michelle Obama and Anna Wintour.21 302 PART 4 | Building STRong BRAndS Marketers can apply branding virtually anywhere a consumer has a choice. It's possible to brand a physical good (Ford Focus automobile or Lipitor cholesterol medication), a service (Singapore Airlines or Blue Cross and Blue Shield medical insurance), a store (Nordstrom or Dick's Sporting Goods), a person (actress Angelina Jolie or tennis player Roger Federer), a place (the city of Sydney or the country of Ireland), an organization (U2 or the American Automobile Association), or an idea (abortion rights or free trade).22 Branding has become of great importance in sports, arts, and entertainment. One of the world's top sports brands comes from Madrid, Spain.23 reaL MadrId For the first time since Forbes magazine began its ranking in 2004, Real Madrid surpassed Manchester United in 2013 to become the world's most valuable team in soccer—or football as it is known as outside the United States—with an estimated value of $3.3 billion. Also known by fans as "Los Merengues," the iconic but floundering club began to thrive when the billionaire construction tycoon Florentine Perez took over in 2000. Perez's strategy was to at- tract some of the very top players in the game, brand names in their own right, such as David Beckham, Zinedine Zidane, and, later on, Cristiano Ronaldo and Kaka. Success on the pitch allowed Perez to develop three distinct and lucrative lines of business: broadcast rights (worth $250 million annually), sponsorship and endorsement revenue (worth $240 million annu- ally), and match-day revenue (worth $160 million annually). Real Madrid is truly a global brand and derives 65 percent of its revenue abroad. Sponsorship includes high-profile deals with Adidas, Emirates Airlines, and Spanish banking group BBVA. Defining Brand Equity Brand equity is the added value endowed to products and services with consumers. It may be reflected in the way consumers think, feel, and act with respect to the brand, as well as in the prices, market share, and profitability it commands. Marketers and researchers use various perspectives to study brand equity.24 Customer-based approaches view it from the perspective of the consumer—either an individual or an organization—and recognize that the power of a brand lies in what customers have seen, read, heard, learned, thought, and felt about the brand over time.25 Customer-based brand equity is thus the differential effect brand knowledge has on consumer response to the marketing of that brand.26 A brand has positive customer-based brand equity when consumers react more favor- ably to a product and the way it is marketed when the brand is identified than when it is not identified. A brand has negative customer-based brand equity if consumers react less favorably to marketing activity for the brand under the same circumstances. There are three key ingredients of customer-based brand equity. Home to some of the top soccer players in the world, like Cristiano Ronaldo, Real Madrid is an iconic sports brand with multiple lines of revenue. So ur ce : E xp a/ A lte rp ho to s/ C ar o M ar in /Z U M A P re ss /N ew sc om CReATing BRAnd equiTy | chapter 11 303 1. Brand equity arises from differences in consumer response. If no differences occur, the brand-name product is essentially a commodity, and competition will probably be based on price. 2. Differences in response are a result of consumers' brand knowledge, all the thoughts, feelings, images, experi- ences, and beliefs associated with the brand. Brands must create strong, favorable, and unique brand associa- tions with customers, as have Toyota (reliability), Hallmark (caring), and Amazon.com (convenience and wide selection). 3. Brand equity is reflected in perceptions, preferences, and behavior related to all aspects of the marketing of a brand. Stronger brands earn greater revenue.27 Table 11.1 summarizes some key benefits of brand equity. The challenge for marketers is therefore ensuring customers have the right type of experiences with products, ser- vices, and marketing programs to create the desired thoughts, feelings and brand knowledge. In an abstract sense, we can think of brand equity as providing marketers with a vital strategic bridge from their past to their future.28 Marketers should also think of the marketing dollars spent on products and services each year as investments in consumer brand knowledge. The quality of that investment is the critical factor, not necessarily the quantity (beyond some threshold amount). It's actually possible to overspend on brand building if money is not spent wisely. Customers' brand knowledge dictates appropriate future directions for the brand. Consumers will decide, based on what they think and feel about the brand, where (and how) they believe the brand should go and grant permission (or not) to any marketing action or program. New-product ventures such as BENGAY aspirin, Cracker Jack cereal, Frito-Lay lemonade, Fruit of the Loom laundry detergent, and Smucker's premium ketchup all failed because consumers found them inappropriate extensions of the brand. A brand promise is the marketer's vision of what the brand must be and do for consumers. Virgin's brand promise is to enter categories where customers' needs are not well met, do different things, and do things differ- ently, all in a way that better meets those needs. With Virgin America, the company appears to have come up with another brand winner.29 VIrgIn aMerICa After flying for only a few years, Virgin America became an award-winning airline that passengers adore and that can make money. It is not unusual for the company to receive e-mails from customers say- ing they actually wished their flights had lasted longer! Virgin America set out to reinvent the entire travel experience, starting with an easy-to-use and friendly Web site and check-in. In flight, passengers revel in Wi-Fi, spacious leather seats, mood lighting, and in-seat food and beverage ordering through touch screens. Some passengers remark that Virgin America is like "flying in an iPod or nightclub." The brand is seeking to be positioned as "an established player featuring discount pricing and a hip, stylish customer experience for travelers." Without a national TV ad campaign, Virgin America has relied on PR, word of mouth, social media, and exemplary customer service to create that customer experience and build the brand. To get customers more involved with the brand, Virgin America launched a digital marketing campaign offering the opportunity to upload a photo to Instagram from the flight. By tweeting the company's Twitter account, travelers can also upload their photo onto Virgin America's Times Square billboard or share it via their own social media accounts. TaBle 11.1 Marketing Advantages of Strong Brands Improved perceptions of product performance Greater trade cooperation and support Greater loyalty Increased marketing communications effectiveness Less vulnerability to competitive marketing actions Possible licensing opportunities Less vulnerability to marketing crises Additional brand extension opportunities Larger margins Improved employee recruiting and retention More inelastic consumer response to price increases Greater financial market returns More elastic consumer response to price decreases 304 PART 4 | Building STRong BRAndS Violating a brand promise can have severe consequences. Founded in 1984, TED talks ("Technology, Entertainment, and Design") became widely admired for their thought-provoking, leading-edge content. After deciding to let anyone apply to manage and stage local events called TEDx with relatively minor oversight, the organizers of TED saw thousands of events of varying quality spring up all over the world, leading some critics to question whether the organization was losing control of its brand.30 BRand equITY ModeLs Although marketers agree about basic branding principles, a number of models of brand equity offer some differ- ing perspectives. Here we highlight three more established ones. BrandAsset® ValuaTor Advertising agency Young and Rubicam (Y&R) developed a model of brand equity called the BrandAsset® Valuator (BAV). Based on research with more than 800,000 consumers in 51 countries, BAV compares the brand equity of thousands of brands across hundreds of different categories. There are four key components—or pillars—of brand equity, according to BAV (see Figure 11.1): Virgin America airline exemplifies Virgin's corporate mission to better satisfy customers by doing different things and doing things differently. So ur ce : P R N E W SW IR E | Fig. 11.1 | BrandAsset® Valuator Model Source: Courtesy of BrandAsset® Consulting, a division of Young & Rubicam. ENERGIZED DIFFERENTIATION The brand's point of difference Relates to margins and cultural currency ESTEEM How you regard the brand Relates to perceptions of quality and loyalty KNOWLEDGE An intimate understanding of the brand Relates to awareness and consumer experience RELEVANCE How appropriate the brand is to you Relates to consideration and trial BRAND STRENGTH Leading Indicator Future Growth Value BRAND STATURE Current Indicator Current Operating Value CReATing BRAnd equiTy | chapter 11 305 • Energized differentiation measures the degree to which a brand is seen as different from others as well as its pricing power. • Relevance measures the appropriateness and breadth of a brand's appeal. • Esteem measures perceptions of quality and loyalty, or how well the brand is regarded and respected. • Knowledge measures how aware and familiar consumers are with the brand and the depth of their experience. Energized differentiation and relevance combine to determine brand strength—a leading indicator that predicts future growth value. Esteem and knowledge together create brand stature, a "report card" of past performance and a lagging indicator of current operating value. The relationships among these dimensions—a brand's "pillar pattern"—reveal much about a brand's current and future status. Brand strength and brand stature combine to form the power grid, depicting stages in the cycle of brand development in successive quadrants (see Figure 11.2). Strong new brands show higher levels of energized differentiation and energy than relevance, whereas both esteem and knowledge are lower still. Leadership brands | Fig. 11.2 | The Universe of Brand Performance Source: Young & Rubicam BrandAsset Valuator. Joost Camper Schlitz Diners Club Efferdent STATURE Esteem and Knowledge ST RE NG TH En er gi ze d Di ffe re nt ia tio n a nd Re le va nc e Alpo Prudential Century 21 Midas Greyhound H&R Block GerberAmerican Airlines Sprint Denny 's Bausch & Lomb Bank of America AOL Nordstrom Blockbuster Staples AdvilNASCAR Burger King Verizon Tylenol Xerox Adidas Amazon Harley-Davidson Apple Toyota GE Target MicrosoftNikeDr. Pepper Nintendo WiiLG Pixar Dristan Vonage VespaSecond Life BitTorrent Flickr Kayak.com Shiseido Zara Grameen Bank Method Lenovo Tazo Glacéau Vitamin Water Palm Pom AMD Crocs Mini Cooper Lindt SanDisk TiVo Wikipedia IKEA iPhone BlackBerry Netflix DirecTV Nikon Kodak Xbox Silk Soymilk Absolut Patagonia Facebook Moet & Chandon Red Bull Autotrader Kia Michelob Napster Viacom Finesse Taster's Choice Garnier Lacoste NBA LOW HI GH These brands have low brand strength but high potential. They have built some energy and relevance, but are known to only a relatively small audience. Consumers are expressing curiosity and interest. These brands have become irresistible, combining high brand strength with high brand stature. They have high earnings, high margin power, and the greatest potential to create future value. These brands, with both low brand stature and low brand strength, are not well known among the general population. Many are new entrants; others are middling brands that have lost their way. These brands show why high brand stature by itself is insufficient for maintaining a leading position. They struggle to overcome what consumers already know about and expect from them. HIGH ERODING/DECLINING NEW/UNFOCUSED NICHE/MOMENTUM LEADERSHIP By plotting a representative group of brands' scores for both strength and stature, this matrix derived from the BrandAsset Valuator shows an accurate picture of a brand's status and overall performance. 306 PART 4 | Building STRong BRAndS show high levels on all pillars, with strength greater than stature. As strength slips, they become mass market brands. Finally, declining brands show high knowledge—evidence of past performance—a lower level of esteem, and even lower relevance and energized differentiation. According to BAV analysis, consumers are concentrating their devotion and purchasing power on an increasingly smaller portfolio of special brands—brands with energized differentiation that keep evolving. These brands connect better with consumers—commanding greater usage loyalty and pricing power and creating greater shareholder value. Some recent insights from the BAV data are summarized in "Marketing Insight: Brand Bubble Trouble." Brand Bubble Trouble In The Brand Bubble, brand consultants Ed Lebar and John Gerzema use Y&R's historical BAV database to conduct a comprehensive ex- amination of the state of brands. Beginning with data from mid-2004, they discovered several odd trends. For thousands of consumer goods and services brands, key brand value measures such as consumer "top-of-mind" awareness, trust, regard, and admiration experienced significant drops. At the same time, however, share prices for a number of years were being driven higher by the intangible value the markets were attributing to consumer brands. Digging deeper, Lebar and Gerzema found the increase was actually due to a very few extremely strong brands such as Google, Apple, and Nike. The value created by the vast majority of brands was stagnating or falling. The authors viewed this mismatch between the value consumers see in brands and the value the markets were ascribing to them as a recipe for disaster in two ways. At the macroeconomic level, it implied that stock prices of most consumer companies were overstated. At the microeconomic, company level, it pointed to a serious and continuing problem in brand management. Why have consumer attitudes toward brands declined? The re- search identified three fundamental causes. First, there has been a proliferation of brands. New product introductions have accelerated, but many fail to register with consumers. Two, consumers expect creative "big ideas" from brands and feel they are just not getting them. Finally, due to corporate scandals, product crises, and executive misbehavior, trust in brands has declined. Yet vital brands are still being successfully built. Although all four pillars of the BAV model play a role, the strongest brands resonated with consumers in a special way. Amazon.com, Axe, Facebook, Innocent, IKEA, Land Rover, LG, LEGO, Tata, Nano, Twitter, Whole Foods, and Zappos exhibited notable energized differentia- tion by communicating dynamism and creativity in ways most other brands did not. Further, the BAV analysis identified three factors that help define energy and the marketplace momentum it creates: 1. Vision—A clear direction and point of view on the world and how it can and should be changed. 2. Invention—An intention for the product or service to change the way people think, feel, and behave. 3. Dynamism—Excitement and affinity in the way the brand is presented. John Gerzema's follow-up research with Michael D'Antonio, published in Spend Shift, examined developments later in the decade and the way consumers were changing—or not—as a result of the traumatic economic recession. The authors describe "Spend Shift" as "a consumer-led movement to express their val- ues through the power of their spending. We're moving from mind- less to mindful consumption. People are returning to old-fashioned virtues, such as self-reliance, thrift, faith, creativity, hard work and community—and powering them with social behaviors and technology." The authors make several telling observations: Trust is de- clining across industries, and brand altitude and attribute characteristics such as "kind," "empathetic," "socially responsible," and "leader" are rising in importance with consumers. The authors offer 10 "post- consumer learnings": 1. We are moving from a credit to a debit society. 2. There are no longer consumers, just citizens. 3. Industries are revealed as collec- tions of individuals. 4. Generational divides are disap- pearing. 5. Human regulation is remaking the marketplace. 6. Generosity is now a business model. 7. Society is shifting from consump- tion to production. 8. We must think small to solve big. 9. We are seeking better vs. more. 10. America is an emerging market for value-led innovation. Sources: John Gerzema and Ed Lebar, The Brand Bubble: The Looming Crisis in Brand Value and How to Avoid It (San Francisco, CA: Jossey-Bass, 2008); John Gerzema and Ed Lebar, "The Trouble with Brands," Strategy+Business 55 (Summer 2009); John Gerzema and Michael D'Antonio, Spend Shift: How the Post-Crisis Values Revolution Is Changing the Way We Buy, Sell and Live (San Francisco, CA: Jossey- Boss, 2011). marketing insight CReATing BRAnd equiTy | chapter 11 307 Brandz Marketing research consultants Millward Brown and WPP have developed the Brandz model of brand strength, at the heart of which is the BrandDynamics™ model, a system of brand equity measurement, based on Millward Brown's Meaningfully Different Framework, that reveals a brand's current equity and potential for growth (Figure 11.3).* BrandDynamics employs a set of simple scores that summarize a brand's equity and are relatable directly to real world financial and business outcomes. BrandDynamics maintain that three different types of brand associations are crucial for building customer predisposition to buy a brand—meaningful, different, and salient brand associations. The success of a brand along those three dimensions, in turn, is reflected in three important outcome measures: • Power: a prediction of the brand's volume share • Premium: a brand's ability to command a price premium relative to the category average • Potential: the probability that a brand will grow value share According to BAV research, how well a brand is activated in the marketplace and the competition that exists there will determine how strongly brand predisposition ultimately translates into sales. Brand resonanCe model The brand resonance model also views brand building as an ascending series of steps, from bottom to top: (1) ensuring customers identify the brand and associate it with a specific | Fig. 11.3 | BrandDynamics™ Model Source: BrandDynamics™ Model. Reprinted with permission of Millward Brown. Brand Associations Brand Predisposition Power Premium Barriers Facilitators Potential In-Market $ ¥ € £ Salient Different Meaningful Innocent is a brand which consumers rate as being highly dynamic and creative. So ur ce : F ru it To w er s *Nigel Hollis, "Making Marketing Meaningful Again," talk given at MSI conference, Brands in the Balance: Managing Continuity and Change," Charleston, SC, February 11-12, 2014. 308 PART 4 | Building STRong BRAndS product class or need; (2) firmly establishing the brand meaning in customers' minds by strategically linking a host of tangible and intangible brand associations; (3) eliciting the proper customer responses in terms of brand-related judgment and feelings; and (4) converting customers' brand response to intense, active loyalty. According to this model, enacting the four steps means establishing a pyramid of six "brand building blocks" as illustrated in Figure 11.4. The model emphasizes the duality of brands—the rational route to brand building is on the left side of the pyramid, and the emotional route is on the right side.31 One brand that has found success going up both sides of the pyramid is MasterCard.32 MasTerCard In the mid-1990s, Visa and American Express were battling fiercely for market leadership. To get back into the picture, MasterCard, with its ad agency McCann Erickson, launched the now iconic "Priceless" ad cam- paign in 1997 to strengthen its brand image. Each ad focused on a consumer activity (such as a father and son going to a baseball game) and identified three tangible products or services purchased as part of that activity and their prices ("One autographed baseball. $50") before ending with the intangible payoff ("Real conversation with 11-year-old son. Priceless."). The ads always ended with the campaign tagline, "There are some things money can't buy; for everything else, there's MasterCard." The campaign stressed the duality of the MasterCard brand, communicating both its rational advan- tages—acceptance at establishments worldwide—and the emotional payoffs those advantages permitted. The campaign has been a global success for more than 17 years, running similarly structured ads in 102 markets and 50 languages. Lately, it has emphasized enabling "priceless" moments with the "Priceless Cities" initiative, launched in 2011 to create special events for MasterCard cardholders in major cities around the world. Creating significant brand equity requires reaching the top of the brand pyramid, which occurs only if the right building blocks are put into place. • Brand salience is how often and how easily customers think of the brand under various purchase or con- sumption situations—the depth and breadth of brand awareness. • Brand performance is how well the product or service meets customers' functional needs. • Brand imagery describes the extrinsic properties of the product or service, including the ways in which the brand attempts to meet customers' psychological or social needs. • Brand judgments focus on customers' own personal opinions and evaluations. • Brand feelings are customers' emotional responses and reactions with respect to the brand. • Brand resonance describes the relationship customers have with the brand and the extent to which they feel they're "in sync" with it. Resonance is the intensity of customers' psychological bond with the brand and the level of activity it engen- ders.33 Brands with high resonance include Harley-Davidson, Apple, and eBay. Fox News has found that the higher levels of resonance and engagement its programs engender often lead to greater recall of the ads it runs.34 | Fig. 11.4 | Brand Resonance Pyramid 3. Response = What about you? 2. Meaning = What are you? 4. Relationships = What about you and me? 1. Identity = Who are you? Positive, accessible reactions Intense, active loyalty Deep, broad brand awareness Resonance Judgments Feelings Performance Imagery Salience Stages of Brand Development Brand Building Blocks Branding Objective at Each Stage Points-of-parity & difference CReATing BRAnd equiTy | chapter 11 309 Building Brand Equity Marketers build brand equity by creating the right brand knowledge structures with the right consumers. The success of this process depends on all brand-related contacts—whether marketer-initiated or not.35 From a mar- keting management perspective, however, there are three main sets of brand equity drivers: 1. The initial choices for the brand elements or identities making up the brand (brand names, URLs, lo- gos, symbols, characters, spokespeople, slogans, jingles, packages, and signage)—Microsoft chose the name Bing for its new search engine because it felt it unambiguously conveyed search and the "aha" mo- ment of finding what you are looking for. It is also short, appealing, memorable, active, and effective multiculturally.36 2. The product and service and all accompanying marketing activities and supporting marketing pro- grams—General Mills and its long-time CMO Mark Addicks are employing a number of new marketing activities to sell cereals, cake mixes, and yogurt. The company is exploring how to best use smart phones with consumers via QR codes, apps, and augmented reality, developing new packaging strategies in the process.37 3. Other associations indirectly transferred to the brand by linking it to some other entity (a person, place, or thing)—The brand name of New Zealand vodka 42BELOW refers to both a latitude that runs through New Zealand and the percentage of the drink's alcohol content. The packaging and other visual cues are designed to leverage the perceived purity of the country to communicate the positioning for the brand.38 Choosing Brand elemenTs Brand elements are devices, which can be trademarked, that identify and differentiate the brand. Most strong brands employ multiple brand elements. Nike has the distinctive "swoosh" logo, the empowering "Just Do It" slogan, and the "Nike" name from the Greek winged goddess of victory. Marketers should choose brand elements to build as much brand equity as possible. The test is what consum- ers would think or feel about the product if the brand element were all they knew. Based on its name alone, for instance, a consumer might expect SnackWell's products to be healthful snack foods and Panasonic Toughbook laptop computers to be durable and reliable. Brand elemenT ChoiCe CriTeria There are six criteria for choosing brand elements. The first three—memorable, meaningful, and likable—are brand building. The latter three—transferable, adaptable, and protectable—are defensive and help leverage and preserve brand equity against challenges. 1. Memorable—How easily do consumers recall and recognize the brand element, and when—at both purchase and consumption? Short names such as Tide, Crest, and Puffs are memorable brand elements. 2. Meaningful—Is the brand element credible? Does it suggest the corresponding category and a product in- gredient or the type of person who might use the brand? Consider the inherent meaning in names such as DieHard auto batteries, Mop & Glo floor wax, and Lean Cuisine low-calorie frozen entrées. 3. Likable—How aesthetically appealing is the brand element? A recent trend is for playful names that also offer a readily available URL, especially for online brands like Flickr, Instagram, Pinterest, Tumblr, Dropbox, and others. 4. Transferable—Can the brand element introduce new products in the same or different categories? Does it add to brand equity across geographic boundaries and market segments? Although initially an online bookseller, Amazon.com was smart enough not to call itself "Books 'R' Us." The Amazon is famous as the world's biggest river, and the name suggests the staggeringly diverse range of products the company now sells. 5. Adaptable—How adaptable and updatable is the brand element? Logos can easily be updated. The past 100 years have seen the Shell logo updated 10 times. 6. Protectable—How legally protectable is the brand element? How competitively protectable? When names are in danger of becoming synonymous with product categories—as happened to Kleenex, Kitty Litter, Jell-O, Scotch Tape, Xerox, and Fiberglass—their makers should retain their trademark rights and not allow the brand to become generic. deVeloping Brand elemenTs Brand elements can play a number of brand-building roles.39 If consumers don't examine much information in making product decisions, brand elements should be easy to recall and inherently descriptive and persuasive. But choosing a name with inherent meaning may make it harder to later add a different meaning or update the positioning.40 The likability of brand elements can increase awareness and associations.41 "Marketing Memo: The Marketing Magic of Characters" describes some of the marketing advantages of using brand characters. 310 PART 4 | Building STRong BRAndS Often, the less concrete brand benefits are, the more important that brand elements capture intangible char- acteristics. Many insurance firms use symbols of strength for their brands (the Rock of Gibraltar for Prudential and the stag for Hartford) or security (the "good hands" of Allstate, the Traveler's umbrella, and the hard hat of Fireman's Fund). Like brand names, slogans are an extremely efficient means to build brand equity.42 They can function as useful "hooks" to help consumers grasp what the brand is and what makes it special, as in "Like a Good Neighbor, State Farm Is There," "Nothing Runs Like a Deere," and "Every Kiss Begins with Kay" for the jeweler. Firms should be careful in replacing a good slogan. Citi walked away from its famous "Citi Never Sleeps" slo- gan, replacing it with "Let's Get It Done," only to return when the new slogan failed to catch on.43 After 50 years, Avis Car Rental dropped "We Try Harder" for "It's Your Space." It's not clear whether this new slogan will have the staying power of the one it replaced.44 desIGnInG holIsTIc MaRkeTInG acTIvITIes Brands are not built by advertising alone. Customers come to know a brand through a range of contacts and touch points: personal observation and use, word of mouth, interactions with company personnel, online or tele- phone experiences, and payment transactions. A brand contact is any information-bearing experience, whether positive or negative, a customer or prospect has with the brand, its product category, or its market.45 The com- pany must put as much effort into managing these experiences as into producing its ads. Any brand contact can affect consumers' brand knowledge and the way they think, feel, or act toward the brand. As we describe throughout this text, marketing strategy and tactics have changed dramatically.46 Marketers are creating brand contacts and building brand equity through new avenues such as online clubs and consumer com- munities, trade shows, event marketing, sponsorship, factory visits, public relations and press releases, and social cause marketing. Consider how BMW has built the MINI Cooper brand in the United States.47 Brand characters have a long and important history in marketing. The Keebler elves reinforce home-style baking quality and a sense of magic and fun for their line of cookies. In the insurance industry, the AFLAC duck competes for consumer attention with GEICO's gecko, and Progressive's chatty Flo competes with Met Life's adorable Peanuts characters. Michelin's friendly tire-shaped Bibendum—the "Michelin Man"—helps to convey safety for the family and is credited with helping the brand achieve 80 percent awareness around the world. Each year Michelin distributes a "Passport" for Bibendum that sets boundaries on the character's use by marketers in advertising. Bibendum is never aggressive, for example, and never delivers a sales pitch. Brand characters represent a special type of brand symbol—one with human characteristics that in turn enhance likeability and tag the brand as inter- esting and fun. Consumers can more easily form relationships with a brand when it has a human or other character's presence. Brand characters typically are introduced through advertising and can play a central role in ad campaigns and package designs. M&M's "spokescandies" are an integral part of all the brand's advertising, promotion, and digital communications. Some brand characters are animated, like the Pillsbury Doughboy, Peter Pan (from the peanut butter), and numerous cereal characters like Tony the Tiger and Snap, Crackle, & Pop. Others are live-action figures like Juan Valdez (Colombian coffee) and Ronald McDonald. Because they are often colorful and rich in imagery, brand characters can help brands break through marketplace clutter and communicate a key product benefit in a soft-sell manner. Maytag's Lonely Repairman reinforced the company's key "reliability" product association for years. Characters also avoid many of the problems that plague human spokespeople—they don't demand pay raises, cheat on their spouses, or grow old. Betty Crocker may be over 90, but after seven makeovers, she doesn't look a day over 39! With the opportunity to shape the brand's personality and facilitate consumer interactions, brand characters play an increasingly important role in a digital world. The success of Mr. Peanut in viral videos led to the introduction of a new peanut butter line. For the namesake character of Captain Morgan rum, Diageo has a team of eight people who work with its New York ad firm Anomaly to create daily online content. Even old-timers are making their way onto the Web. First introduced in 1957, Mr. Clean has amassed almost 900,000 Facebook fans. The online popularity and effectiveness of brand characters was demonstrated by a research study revealing that the Pillsbury Doughboy garners 10 times the social media buzz for the Pillsbury brand as NBA star LeBron James does for his Nike sponsor! Sources: Bruce Horovitz, "Mascots Top Celebrities in Social Media Buzz," USA Today, June 10, 2013; Rupal Parekh, "Meet the Woman behind the Michelin Man," Advertising Age, June 11, 2012; Suzanne Vranica, "Knights, Pirates and Trees Flock to Facebook," Wall Street Journal, March 26, 2012; David Welch, "Mr. Peanut Gets Smashed," Bloomberg Businessweek, March 12, 2012; "Betty Crocker Celebrates 90th Birthday," www.marketwatch.com, November 18, 2011; Dorothy Pomerantz and Lacey Rose, "America's Most Loved Spokescreatures," Forbes, March 18, 2010; Judith A. Garretson and Scot Burton, "The Role of Spokescharacters as Advertisement and Package Cues in Integrated Marketing Communications," Journal of Marketing 69 (October 2005), pp. 118–32; Judith Anne Garretson Folse, Richard G. Netemeyer, and Scot Burton, "Spokescharacters: How the Personality Traits of Sincerity, Excitement, and Competence Help to Build Equity," Journal of Advertising 41 (Spring 2012), pp. 17–32. The Marketing Magic of Charactersmarketing memo CReATing BRAnd equiTy | chapter 11 311 MInI COOPer When BMW launched the modernized MINI Cooper in the United States in 2002, it em- ployed a broad mix of media: billboards, posters, Internet, print, PR, product placement, and grassroots activities. Many were linked to a cleverly designed Web site with product and dealer information. The car was placed atop Ford Excursion SUVs at 21 auto shows across the United States; it was used as seats in a sports stadium; and it appeared in Playboy magazine as a centerfold. The imaginative integrated campaign built a six-month waiting list for the MINI Cooper. Despite its relatively limited communications budget, the brand has continued to develop innovative, award-winning campaigns ever since. MINI has especially used outdoor advertising creatively: Two curved palm trees planted next to a speeding MINI on a billboard MINI Cooper has been supported since its American launch by a creative and full-integrated marketing program. So ur ce : M IN I U SA Supported by an ad campaign featuring star NFL quarterback Tom Brady, UGG has been targeting men as one of its new avenues for growth. So ur ce : F G A W E N N P ho to s/ N ew sc om 312 PART 4 | Building STRong BRAndS created an illusion of speed and power; a digital billboard personally greeted passing MINI drivers by using a signal from a radio chip embedded in their key fobs; and a real MINI on the side of a building was able to move up and down like a yo- yo. A new worldwide campaign, "Not Normal," spotlights MINI's strong, independent character through classic and digital media. Now sold in 100 countries around the world, MINI has expanded into a six-model lineup, including a convertible, a coupe, the Clubman four-door, and the Countryman wagon. These product introductions reinforce that MINI is agile, versa- tile, and fun to drive, and the marketing campaign as a whole builds strong emotional connections with drivers. Integrated marketing is about mixing and matching marketing activities to maximize their individual and collective effects.48 Marketers need a variety of different marketing activities that consistently reinforce the brand promise. Consider what Deckers is doing to make sure UGG does not become yesterday's news.49 ugg UGG sheepskin boots were originally made for men; surfers in Australia wore them on the beach to warm their feet after surfing. Acquired by Deckers in 1995, UGGs took off among women in 2000 after Oprah Winfrey showcased them on her famous "Favorite Things" show. By 2011, sales had cracked $1 billion. The following year, women's tastes in boots shifted to leather, and sales of UGGs slipped. To bolster the brand, Deckers is using the credibility and influence of bloggers who make up the "UGG Creative Council" to expand the brand's social media footprint and build awareness of the full range of its product line. To appeal to men, rugged New England Patriots quarterback Tom Brady was hired as an en- dorser in a campaign featuring the comfort, craftsmanship, and quality of the brand. To broaden the brand's appeal beyond its quintessential winter boot, spring and summer lines including sandals and beach cover-ups were launched to position UGG as an active, outdoor lifestyle brand. We can evaluate integrated marketing activities in terms of the effectiveness and efficiency with which they affect brand awareness and create, maintain, or strengthen brand associations and image. Although Volvo may invest in R&D and engage in advertising, promotions, and other communications to reinforce its "safety" brand association, it also sponsors events to make sure it is seen as active, contemporary, and up to date. Notable Volvo sponsorships include golf tournaments and the European professional golf tour, the Volvo Ocean race, the famed Gothenburg horse show, and cultural events. Marketing programs should be put together so the whole is greater than the sum of the parts. In other words, marketing activities should work singularly and in combination. leveRaGInG secondaRY assocIaTIons The third and final way to build brand equity is, in effect, to "borrow" it. That is, create brand equity by linking the brand to other information in memory that conveys meaning to consumers (see Figure 11.5). The Volvo Ocean race is a way to help the Volvo brand be seen as modern, active and energetic. So ur ce : A SS O C IA T E D P R E SS CReATing BRAnd equiTy | chapter 11 313 These "secondary" brand associations can link the brand to sources such as the company itself (through branding strategies), to countries or other geographical regions (through identification of product origin), and to channels of distribution (through channel strategy), as well as to other brands (through ingredient or co-branding), characters (through licensing), spokespeople (through endorsements), sporting or cultural events (through spon- sorship), or some other third-party sources (through awards or reviews). Suppose Burton—the maker of snowboards, snowboard boots, bindings, clothing, and outerwear—decided to introduce a new surfboard called the "Dominator." Burton has gained more than a third of the snowboard mar- ket by closely aligning itself with top professional riders and creating a strong amateur snowboarder community around the country.50 To support the new surfboard, Burton could leverage secondary brand knowledge in a num- ber of ways: • It could "sub-brand" the product, calling it "Dominator by Burton." Consumers' evaluations of the new prod- uct would be influenced by how they felt about Burton and whether they felt that such knowledge predicted the quality of a Burton surfboard. • Burton could rely on its rural New England origins, but such a geographical location would seem to have little relevance to surfing. • Burton could sell through popular surf shops in the hope that their credibility would rub off on the Dominator brand. • Burton could co-brand by identifying a strong ingredient brand for its foam or fiberglass materials (as Wilson did by incorporating Goodyear tire rubber on the soles of its Pro Staff Classic tennis shoes). • Burton could find one or more top professional surfers to endorse the surfboard, or it could sponsor a surfing competition or even the entire Association of Surfing Professionals (ASP) World Tour. • Burton could secure and publicize favorable ratings from third-party sources such as Surfer or Surfing magazine. Thus, independent of the associations created by the surfboard itself, its brand name, or any other aspects of the marketing program, Burton could build equity by linking the brand to these other entities. Leveraging secondary associations can be an efficient and effective way to strengthen a brand. But linking a brand to someone or something else can be risky because anything bad that happens to that other entity can also be linked to the brand. When popular endorsers Tiger Woods and Lance Armstrong got into trouble, many of the firms using them to promote their brands chose to cut ties. | Fig. 11.5 | Secondary Sources of Brand Knowledge CompanyIngredients Alliances Extensions Country of origin Channels Employees Endorsers Causes Third-party endorsements Events BRAND Other Brands Things PlacesPeople 314 PART 4 | Building STRong BRAndS Ford's external marketing efforts are matched by a strong internal branding program within the company. If Burton were to introduce a surfboard, there are many ways it could leverage secondary brand knowledge and associations. So ur ce : i m ag o sp or tf ot od ie ns t/ im ag o/ Sc hr ey er /N ew sc om InTeRnal BRandInG Marketers must now "walk the walk" to deliver the brand promise. They must adopt an internal perspective to be sure employees and marketing partners appreciate and understand basic branding notions and how they can help—or hurt—brand equity.51 Internal branding consists of activities and processes that help inform and inspire employees about brands.52 Holistic marketers must go even further and train and encourage distribu- tors and dealers to serve their customers well. Poorly trained dealers or other intermediaries can ruin the best efforts to build a strong brand image. Brand bonding occurs when customers experience the company as delivering on its brand promise. All the customers' contacts with company employees and com- munications must be positive.53 The brand promise will not be delivered unless everyone in the company lives the brand. Disney is so successful at internal branding that it holds seminars on the "Disney Style" for employees from other companies. Chevrolet chose to send almost 3,000 of its dealers to the Disney Institute in Walt Disney World to help them learn how to apply Disney principles to improve the car-buying experience for their customers.54 When employees care about and believe in the brand, they're motivated to work harder and feel greater loyalty to the firm. Some important principles for inter- nal branding are:55 1. Choose the right moment. Turning points are ideal opportunities to capture employees' attention and imagination. After it ran an internal branding campaign to accompany its external repositioning, the "Beyond Petroleum" ad campaign, BP found most employees were positive about the new brand and thought the company was going in the right direction. 2. Link internal and external marketing. Internal and external messages must match. Ford's new CReATing BRAnd equiTy | chapter 11 315 branding push to "Go Further" targets car buyers as well as Ford employees. The company believes that mak- ing Ford's internal branding efforts consistent with its external branding can "create profound synergies that will benefit the company in significant ways." Internally, Ford CMO Jim Farley is emphasizing three areas to help Ford employees "go further": "people serving people," "ingenuity," and "attainable."56 3. Bring the brand alive for employees. Internal communications should be informative and energizing. Starbucks created a barista-quality and exhibit to physically immerse managers and employees in the brand experience. To help its staff better understand how the brand positioning and promise affected their daily work, a major services company invested more than 100,000 hours in deep manager and employee training, with role-playing scenarios, exercises, and interactive tools.57 4. Keep it simple. Don't overwhelm employees with too many details. Focus on the key brand pillars, ideally in the form of a brand mantra. Walmart uses three very simple brand pillars: "Quality Products; Unbeatable Prices; Easy Shopping." 58 Measuring Brand Equity How do we measure brand equity? An indirect approach assesses potential sources of brand equity by identify- ing and tracking consumer brand knowledge structures.59 A direct approach assesses the actual impact of brand knowledge on consumer response to different aspects of the marketing. "Marketing Insight: The Brand Value Chain" shows how to link the two approaches. The Brand Value Chain The brand value chain is a structured approach to assessing the sources and outcomes of brand equity and the way marketing activities create brand value (Figure 11.6). It is based on several premises. First, brand value creation begins when the firm targets actual or potential customers by investing in a marketing program to develop the brand, including marketing communications, trade or intermediary sup- port, and product research, development, and design. This marketing activity will change customers' mind-sets—what customers think and feel and everything that becomes linked to the brand. Next, these cus- tomers' mind-sets will affect buying behavior and the way consumers respond to all subsequent marketing activity—pricing, channels, com- munications, and the product itself—and the resulting market share and profitability of the brand. Finally, the investment community will consider this market performance of the brand to assess shareholder value in general and the value of a brand in particular. The model also assumes that three multipliers increase or de- crease the value that can flow from one stage to another. • The program multiplier determines the marketing program's ability to affect the customer mind-set and is a function of the quality of the program investment. • The customer multiplier determines the extent to which value created in the minds and hearts of customers affects market performance. This result depends on competitive superiority (how effective the quantity and quality of the marketing investment of other compet- ing brands are), channel and other intermediary support (how much brand reinforcement and selling effort various marketing partners are putting forth), and customer size and profile (how many and what types of customers, profitable or not, are attracted to the brand). • The market multiplier determines the extent to which the value shown by the market performance of a brand is manifested in shareholder value. It depends, in part, on the actions of financial analysts and investors. Researchers at Millward Brown adopt a very similar perspective. They maintain that a brand's financial success depends on its ability to be meaningful, different, and salient. These three brand qualities (MD&S) predispose someone to positive purchase behavior (choose the brand over others, pay more for it, stick with or try it in the future), which in turn generates financial benefits to the company (increased volume share, higher price premium, increased likelihood to grow value share in the future). Millward Brown asserts that this brand predisposition is measured by three brand equity metrics: power, premium and potential. • Power predicts the brand's volume share. Brands that are meaningful, different, and salient in people's minds are more likely to be chosen. These will drive brand volume, so power predicts volume share based entirely on perceptions, absent of activation factors. • People are predisposed to pay more for the brand. This will allow the brand to charge more, so premium predicts the price index your brand can command. • Potential indicates the likelihood of value share growth for the brand in the next 12 months, based on people's predisposition to stick to the brand or try it in the future. Sources: Kevin Lane Keller and Don Lehmann, "How Do Brands Create Value," Marketing Management (May–June 2003), pp. 27–31. See also Marc J. Epstein and Robert A. Westbrook, "Linking Actions to Profits in Strategic Decision Making," MIT Sloan Management Review (Spring 2001), pp. 39–49; Rajendra K. Srivastava, Tasadduq A. Shervani, and Liam Fahey, "Market-Based Assets and Shareholder Value," Journal of Marketing 62 (January 1998), pp. 2–18; Shuba Srinivasan, Marc Vanhuele, and Koen Pauwels, "Mindset Metrics in Market Response Models: An Integrative Approach," Journal of Marketing Research 47 (August 2010), pp. 672–84; Josh Samuel, "The Power of Being Meaningful, Different and Salient," Point of View, www.millwardbrown.com; Jorge Alagon and Josh Samuel, "The Meaningfully Different Framework," white paper, www.millwardbrown.com, April 2013. marketing insight 316 PART 4 | Building STRong BRAndS The two general approaches are complementary, and marketers can employ both. In other words, for brand equity to perform a useful strategic function and guide marketing decisions, marketers need to fully understand (1) the sources of brand equity and how they affect outcomes of interest and (2) how these sources and outcomes change, if at all, over time. Brand audits are important for the former; brand tracking for the latter. • A brand audit is a focused series of procedures to assess the health of the brand, uncover its sources of brand equity, and suggest ways to improve and leverage its equity. Marketers should conduct a brand audit when setting up marketing plans and when considering shifts in strategic direction. Conducting brand audits on a regular basis, such as annually, allows marketers to keep their fingers on the pulse of their brands so they can manage them more proactively and responsively. A good brand audit provides keen insights into consumers, brands, and the relationship between the two. • Brand-tracking studies use the brand audit as input to collect quantitative data from consumers over time, providing consistent, baseline information about how brands and marketing programs are performing. Tracking studies help us understand where, how much, and in what ways brand value is being created to facili- tate day-to-day decision making. One firm that recently conducted an influential major brand audit is Kellogg's.60 KeLLOgg'S The ready-to-eat cereal category has been under siege in recent years as busy consumers choose to eat on the run while nutrition-minded consumers worry about genetically modified ingredients. With a his- tory spanning more than a century, Kellogg decided it needed to refresh the brand and address the issues head-on. An extensive brand audit, dubbed "Project Signature," was launched to provide strategic direction and creative inspiration. After a year of work with brand consulting partner Interbrand, the result was a new tagline, "Let's Make Today Great"; an updated, more contemporary logo and design look; clear identification of the brand's core purpose as highlighting the "power of breakfast"; explicit incorporation of the Kellogg's master brand into all its marketing campaigns; and consoli- dation of 42 company Web sites around the world into one. The brand audit influenced a number of Kellogg's specific marketing programs, from the cause-related "Share Your Breakfast" campaign (to help the one in five U.S. children who might not have access to breakfast) to the "Love Your Cereal" social media program debunking myths about cereal. An Olympic sponsor, Kellogg also devotes 20 percent of its communication budget to online engagement. Marketers should distinguish brand equity from brand valuation, which is the job of estimating the total finan- cial value of the brand. Table 11.2 displays the world's most valuable brands in 2012 according to the Interbrand rankings, as described below in "Marketing Insight: What Is a Brand Worth?"61 In these well-known companies, brand value is typically more than half the total company market capitalization. John Stuart, cofounder of Quaker Oats, said: "If this business were split up, I would give you the land and bricks and mortar, and I would take the Marketing Program Investment Customer Multiplier Market Multiplier Program Multiplier - Distinctiveness - Relevance - Integrated - Value - Excellence - Competitive reactions - Channel support - Customer size & profile - Market dynamics - Growth potential - Risk profile - Brand contribution Customer Mind-set Brand Performance Shareholder Value - Product - Communications - Trade - Employee - Other - Awareness - Associations - Attitudes - Attachment - Activity - Price premiums - Price elasticities - Market share - Expansion success - Cost structure - Profitability - Stock price - P/E ratio - Market capitalization VALUE STAGES MULTIPLIERS | Fig. 11.6 | Brand Value Chain Source: Kevin Lane Keller, Strategic Brand Management, 4th ed. (Upper Saddle River, NJ: Prentice Hall, 2013). Printed and electron- ically reproduced by permission of Pearson Education, Inc., Upper Saddle River, New Jersey. CReATing BRAnd equiTy | chapter 11 317 TABle 11.2 The World's 10 Most Valuable Brands in 2014 Rank Brand 2014 Brand Value (Billions) 1 Apple $118.9 2 Google $107.4 3 Coca-Cola $81.6 4 IBM $72.2 5 Microsoft $61.2 6 GE $45.5 7 Samsung $45.5 8 Toyota $42.4 9 McDonald's $42.3 10 Mercedes-Benz $34.3 Source: Interbrand. Used with permission. What Is a Brand Worth? Top brand-management firm Interbrand has developed a model to formally estimate the dollar value of a brand. It defines brand value as the net present value of the future earnings that can be attributed to the brand alone. The firm believes marketing and financial analyses are equally important in determining the value of a brand. Its process fol- lows five steps (see Figure 11.7 for a schematic overview): 1. Market Segmentation—The first step is to divide the market(s) in which the brand is sold into mutually exclusive segments that help determine variations among the brand's different customer groups. 2. Financial Analysis—Interbrand assesses purchase price, vol- ume, and frequency to help calculate accurate forecasts of future brand sales and revenues. Once it has established Brand Revenues, it deducts all associated operating costs to derive earn- ings before interest and tax (EBIT). It also deducts the appropriate taxes and a charge for the capital employed to operate the under- lying business, leaving Economic Earnings, that is, the earnings attributed to the branded business. 3. Role of Branding—Interbrand next attributes a proportion of Economic Earnings to the brand in each market segment by first identifying the various drivers of demand and then determining the degree to which the brand directly influences each. The Role of Branding assessment is based on market research, client work- shops, and interviews and represents the percentage of Economic Earnings the brand generates. Multiplying the Role of Branding by Economic Earnings yields Brand Earnings. 4. Brand Strength—Interbrand then assesses the brand's strength profile to determine the likelihood that the brand will realize fore- casted Brand Earnings. This step relies on competitive benchmark- ing and a structured evaluation of the brand's clarity, commitment, protection, responsiveness, authenticity, relevance, differentiation, consistency, presence, and understanding. For each segment, Interbrand applies industry and brand equity metrics to determine a risk premium for the brand. The company's analysts derive the overall Brand Discount Rate by adding a brand-risk premium to marketing insight brands and trademarks, and I would fare better than you." U.S. companies do not list brand equity on their balance sheets, in part because of differences in opinion about what constitutes a good estimate. However, companies do give it a value in countries such as the United Kingdom, Hong Kong, and Australia. 318 PART 4 | Building STRong BRAndS Managing Brand Equity Because consumer responses to marketing activity depend on what they know and remember about a brand, the brand value chain suggests, short-term marketing actions, by changing brand knowledge, necessarily increase or decrease the long-term success of future marketing actions. BRand ReInfoRceMenT As a company's major enduring asset, a brand needs to be carefully managed so its value does not depreciate.62 Brand leaders of 70 years ago that remain leaders today—companies such as Wrigley's, Coca-Cola, Heinz, and Campbell Soup—only do so by constantly striving to improve their products, services, and marketing. Marketers can reinforce brand equity by consistently conveying the brand's meaning in terms of (1) what prod- ucts it represents, what core benefits it supplies, and what needs it satisfies; and (2) how the brand makes products superior and which strong, favorable, and unique brand associations should exist in consumers' minds.63 NIVEA, one of Europe's strongest brands, expanded from a skin cream brand to a skin care and personal care brand | Fig. 11.7 | Interbrand Brand Valuation Method Demand Drivers Brand Earnings Brand Discount Rate Competitive Benchmarking Market Segments Brand Value (Net present value of future brand earnings) Financial Analysis Economic Earnings Role of Branding Brand Strength The risk-free rate, represented by the yield on government bonds. The Brand Discount Rate, applied to the forecasted Brand Earnings, yields the net present value of the Brand Earnings. The stronger the brand, the lower the discount rate, and vice versa. 5. Brand Value Calculation—Brand Value is the net present value (NPV) of the forecasted Brand Earnings, discounted by the Brand Discount Rate. The NPV calculation is composed of both the fore- cast period and the period beyond, reflecting the ability of brands to continue generating future earnings. Increasingly, Interbrand uses brand value assessments as a dynamic, strategic tool to identify and maximize return on brand investment across a whole host of areas. Sources: Interbrand, the Interbrand Brand Glossary, and Interbrand's Nik Stucky and Rita Clifton, January 2009. For an alternative brand valuation method, see Millward Brown's BrandZ brand valuation methodology: .comBrandZ/Top_100_Global_Brands/Methodology.aspx. CReATing BRAnd equiTy | chapter 11 319 through carefully designed and implemented brand extensions that reinforced the brand promise of "mild," "gentle," "caring," and "protective." Reinforcing brand equity requires that the brand always be moving for- ward—in the right direction and with new and compelling offerings and ways to market them. In virtually every product category, once-prominent and admired brands—such as Circuit City, Fila, Polaroid, and Slim-Fast—have fallen on hard times or gone out of business.64 Consider the plight of one-time highflier Nokia.65 nOKIa For 14 years, Nokia dominated cell phone sales as the world's industry leader before being surpassed by Samsung in 2012, marking the end of an era. Once the pride of Finland, the company has found itself outsold by Samsung even on its home soil. How could such a high-flying brand come crashing to earth? In a nutshell, it failed to innovate and stay relevant. Nokia did not respond to the wildly successful iPhone and the shifting consumer demand that accompanied it. The company thought the iPhone was too expensive to manufacture and was not up to its own product standards. The iPhone reportedly failed Nokia's "drop test," in which a phone is dropped on concrete from a height of five feet at different angles. Nokia also spent $40 billion on R&D over the preceding decade and was a smart phone pioneer, but it chose not to invest in devices that anticipated what the iPhone eventually became. Without the right new products, Nokia began to be associated by consumers with a different era of technology, a fatal blow in the fast-moving, technologically intensive smart phone market. An important part of reinforcing brands is providing consistent marketing support. Consistency doesn't mean uniformity with no changes: While there is little need to deviate from a successful position, many tactical changes may be necessary to maintain the strategic thrust and direction of the brand. When change is necessary, marketers should vigorously preserve and defend sources of brand equity. Marketers must recognize the trade-offs between activities that fortify the brand and reinforce its meaning, such as a well-received product improvement or a creatively designed ad campaign, and those that leverage or borrow from existing brand equity to reap some financial benefit, such as a short-term promotional discount.66 At some point, failure to reinforce the brand will diminish brand awareness and weaken brand image. Consider what happened to Sears.67 sears A classic U.S. company, Sears was one of the strongest department store brands for more than 100 years, associated with high-quality merchandise and responsive customer service. Facing financial difficulties in the early 2000s, the company started aggressively selling assets and cutting costs to maintain its revenue targets. As a result of spending only $2 to $3 per square foot on annual maintenance and repair of its stores, far less than the $6 to $8 per square foot spent by competitors Target and Walmart, Sears began hearing customer complaints about inattentive sales associates, dis- organized sales racks, and stores in disrepair. As one analyst noted, "[T]hey weren't keeping [their] promise. Consumers are pretty sophisticated, and they walked into these stores and it was the same old place … without the freshness, the excite- ment or the interactivity of the experience." According to the ACS index of customer satisfaction, in 2012 Sears was ranked 10th among 11 department and discount stores, and same-store sales had been in a prolonged six-year decline. BRand RevITalIzaTIon Any new development in the marketing environment can affect a brand's fortunes. Nevertheless, a number of brands have managed to make impressive comebacks in recent years.68 After some hard times in the automotive market, Cadillac, Fiat, and Volkswagen have all turned their brand fortunes around to varying degrees. General Motors's rescue of its fading Cadillac brand was fueled by a complete overhaul of its product lineup with new designs that redefined its look and styling, such as the SRX crossover, the XTS and CTS sedans, the Escalade By failing to sufficiently innovate and stay relevant, Nokia quickly lost market leadership. So ur ce : © K um ar S ris ka nd an /A la m y 320 PART 4 | Building STRong BRAndS SUV, and the new ATS sports sedan. A healthy dose of breakthrough marketing, including the first use of Led Zeppelin's music in advertising, also helped.69 Often, the first thing to do in revitalizing a brand is understand what the sources of brand equity were to begin with. Are positive associations losing their strength or uniqueness? Have negative associations become linked to the brand? Then decide whether to retain the same positioning or create a new one and, if so, which new one.70 Sometimes the actual marketing program is the source of the problem because it fails to deliver on the brand promise. Then a "back to basics" strategy may make sense. We've mentioned that Harley-Davidson regained its market leadership by doing a better job of living up to customer expectations for product performance. Pabst Brewing Company did it by returning to its roots and leveraging iconic packaging and imagery and a perception of authenticity. In other cases, however, the old positioning is just no longer viable and a reinvention strategy is necessary. Mountain Dew completely overhauled its brand image to become a soft-drink powerhouse. As its history reveals, it is often easier to revive a brand that is alive but has been more or less forgotten. Old Spice is another example of a brand that transcended its roots as the classic aftershave and cologne gift set that baby boomers gave their dads on Father's Day to become positively identified with contemporary male grooming products for a younger Millennial audience. To revitalize Old Spice, P&G used product innovation and tongue-in-cheek communications that stressed the brand's "experience."71 There is obviously a continuum of revitalization strategies, with pure "back to basics" at one end, pure "reinven- tion" at the other, and many combinations in between. The challenge is often to change enough to attract some new customers, but not enough to alienate old customers. Regardless of the strategy, brand revitalization of almost any kind starts with the product.72 Consider how Burberry made its comeback.73 burberry Burberry has an incredible 150-year history. The company's classic English trenchcoats were worn by British soldiers in World War I; Sir Ernest Shackleton wore a Burberry during his Antarctic expedition; and Burberry has even been designated an official supplier to the royal family. By 2006, though, the brand's distinctive plaid pattern was no longer cool; it had been splashed over too many products and knocked off by too many counterfeiters. A new CEO, Angela Ahrendts, who had grown up in the U.S. Midwest, was shocked to find that despite the trenchcoat's iconic status, outerwear made up only 20 percent of Burberry's global business. Despite some misgivings from oth- ers, she decided to "reinforce our heritage, our Britishness, by emphasizing and growing our core luxury products, innovating them and keeping them at the heart of everything we did." Targeting the luxury customer of the future, Burberry revitalized its brand by focusing on core products and refocusing on its heritage and style. So ur ce : © C am er a Pr es s Lt d/ A la m y CReATing BRAnd equiTy | chapter 11 321 Ahrendt removed the overworked plaid pattern from 90 percent of products. A new global design czar, Christopher Bailey, gave the brand a more unified and contemporary sensibility, resulting in the creation of more than 300 different coats, from capes and cropped jackets to classic trenches in a variety of colors and styles. New stores were opened in desirable locations, and training for sales associates was increased. The Web site was redesigned to be more appeal- ing to Millennials, featuring emotive brand content like music, movies, heritage, and storytelling, including simulcasts of Burberry's runway shows. Devising a Branding Strategy A firm's branding strategy—often called its brand architecture—reflects the number and nature of both com- mon and distinctive brand elements. Deciding how to brand new products is especially critical. A firm has three main choices: 1. It can develop new brand elements for the new product. 2. It can apply some of its existing brand elements. 3. It can use a combination of new and existing brand elements. When a firm uses an established brand to introduce a new product, the product is called a brand extension. When marketers combine a new brand with an existing brand, the brand extension can also be called a sub- brand, such as Hershey Kisses candy, Adobe Acrobat software, Toyota Camry automobiles, and American Express Blue cards. The existing brand that gives birth to a brand extension or sub-brand is the parent brand. If the parent brand is already associated with multiple products through brand extensions, it can also be called a master brand or family brand. Brand extensions fall into two general categories. In a line extension, the parent brand covers a new product within a product category it currently serves, such as with new flavors, forms, colors, ingredients, and package sizes. Dannon has introduced several types of Dannon yogurt line extensions through the years—Fruit on the Bottom, All Natural Flavors, Dan-o-nino, and Light & Fit. In a category extension, marketers use the parent brand to enter a different product category, such as Swiss Army watches. Honda has used its company name to cover such different products as automobiles, motorcycles, snowblowers, lawn mowers, marine engines, and snowmobiles. This allows the firm to advertise that it can fit "six Hondas in a two-car garage." A brand line consists of all products—original as well as line and category extensions—sold under a particu- lar brand. A brand mix (or brand assortment) is the set of all brand lines that a particular seller makes. Many companies are introducing branded variants, which are specific brand lines supplied to specific retailers or distribution channels. They result from the pressure retailers put on manufacturers to provide distinctive offer- ings. A camera company may supply its low-end cameras to mass merchandisers while limiting its higher-priced items to specialty camera shops. Valentino may design and supply different lines of suits and jackets to different department stores.74 A licensed product is one whose brand name has been licensed to other manufacturers that actually make the product. Corporations have seized on licensing to push their company names and images across a wide range of products—from bedding to shoes—making licensing a multibillion-dollar business. It is perhaps not surprising that in a high-involvement category such as automobiles, licensing is big business.75 auTOMOTIVe LICensIng Several automotive brands have created lucrative licensing busi- nesses. Jeep's licensing program, with 600 products and 150 licensees, includes everything from strollers built for a father's longer arms to apparel with Teflon in the denim—as long as the product fits the brand's positioning of "Life without Limits." Thanks to 600-plus dedicated shop-in-shops and 80 freestanding stores around the world, Jeep's licensing reve- nue now exceeds $550 million in retail sales. New areas of emphasis include outdoor and travel gear, juvenile products, and sporting goods. As of 2014, Ford was generating $2 billion in licensing revenue from 18,000 different items sold through 400 licensees. Products range from apparel branded with the Ford Blue Oval logo and the popular Mustang nameplate logo to radio-controlled cars sold in major retailers like Walmart and Toys R Us. An area of growth is products designed to equip male fans and their "man caves." 322 PART 4 | Building STRong BRAndS BRandInG decIsIons alTernaTiVe Branding sTraTegies Today, branding is such a strong force that hardly anything goes unbranded. Assuming a firm decides to brand its products or services, it must choose which brand names to use. Three general strategies are popular: • Individual or separate family brand names. Consumer packaged-goods companies have a long tradition of branding different products by different names. General Mills largely uses individual brand names, such as Bisquick, Gold Medal flour, Nature Valley granola bars, Old El Paso Mexican foods, Progresso soup, Wheaties cereal, and Yoplait yogurt. If a company produces quite different products, one blanket name is often not de- sirable. Swift & Company developed separate family names for its hams (Premium) and fertilizers (Vigoro). Companies often use different brand names for different quality lines within the same product class. A major advantage of separate family brand names is that if a product fails or appears to be of low quality, the company has not tied its reputation to it.76 • Corporate umbrella or company brand name. Many firms, such as Heinz and GE, use their corporate brand as an umbrella brand across their entire range of products.77 Development costs are lower with umbrella names because there's no need to research a name or spend heavily on advertising to create rec- ognition. Campbell Soup introduces new soups under its brand name with extreme simplicity and achieves instant recognition. Sales of the new product are likely to be strong if the manufacturer's name is good. Corporate-image associations of innovativeness, expertise, and trustworthiness have been shown to directly influence consumer evaluations.78 Finally, a corporate branding strategy can lead to greater intangible value for the firm.79 • Sub-brand name. Sub-brands combine two or more of the corporate brand, family brand, or individual product brand names. Kellogg employs a sub-brand or hybrid branding strategy by combining the corporate brand with individual product brands as with Kellogg's Rice Krispies, Kellogg's Raisin Bran, and Kellogg's Corn Flakes. Many durable-goods makers such as Honda, Sony, and Hewlett-Packard use sub-brands for their products. The corporate or company name legitimizes, and the individual name individualizes, the new product. house oF Brands Versus a Branded house The use of individual or separate family brand names has been referred to as a "house of brands" strategy, whereas the use of an umbrella corporate or company brand name is a "branded house" strategy. These two strategies represent two ends of a continuum. A sub-brand strategy falls somewhere between, depending on which component of the sub-brand receives more emphasis. A good example of a house of brands strategy is United Technologies.80 unITed TeChnOLOgIes United Technology Corporation (UTC) provides a broad range of high-technology products and services for the aerospace and commercial building industries, generating nearly $63 billion in revenues. Its aerospace businesses include Sikorsky helicopters, Pratt & Whitney aircraft engines, and UTC Aerospace Jeep generates over $550 million in revenues by licensing its brand to other companies for other products. So ur ce : © M A R K A /A la m y CReATing BRAnd equiTy | chapter 11 323 Systems (which includes Goodrich Corporation and Hamilton Sundstrand aerospace systems). UTC Building & Industrial Systems, the world's largest provider of building technologies, includes Otis elevators and escalators; Carrier heating, air- conditioning, and refrigeration systems; and fire and security solutions from brands such as Kidde and Chubb. Most of its in-market brands are the names of the individuals who invented the product or created the company decades ago; they have more power and are more recognizable in the business buying marketplace than the name of the parent brand, and employees are loyal to the individual companies. The UTC name is advertised only to small but influential audiences—the financial community and opinion leaders in New York and Washington, DC. "My philosophy has always been to use the power of the trademarks of the subsidiaries to improve the recognition and brand acceptance, awareness, and respect for the parent company itself," said UTC's one-time CEO George David. With a branded house strategy, it is often useful to have a well-defined flagship product. A flagship product is one that best represents or embodies the brand as a whole to consumers. It often is the first product by which the brand gained fame, a widely accepted best-seller, or a highly admired or award-winning product.81 Flagship products play a key role in the brand portfolio in that marketing them can have short-term benefits (increased sales) as well as long-term benefits (improved brand equity for a range of products). Certain models play important flagship roles for many car manufacturers. Besides generating the most sales, family sedans Toyota Camry and Honda Accord represent brand values that all cars from those manufacturers share.82 In justifying the large investments incurred in launching its new 2014 Mercedes S-class automobiles, Daimler's chief executive Dieter Zetsche explained, "This car is for Mercedes-Benz what the harbor is for Hamburg, the Mona Lisa for Leonardo da Vinci and 'Satisfaction' for the Rolling Stones: the most important symbol of the reputation of the whole."83 Two key components of virtually any branding strategy are brand portfolios and brand extensions. (Chapter 13 discusses co-branding and ingredient branding, as well as line-stretching through vertical extensions.) BRand poRTfolIos A brand can be stretched only so far, and all the segments the firm would like to target may not view the same brand equally favorably. Marketers often need multiple brands in order to pursue these multiple segments. Some other reasons for introducing multiple brands in a category include:84 1. Increasing shelf presence and retailer dependence in the store 2. Attracting consumers seeking variety who may otherwise have switched to another brand 3. Increasing internal competition within the firm 4. Yielding economies of scale in advertising, sales, merchandising, and physical distribution The brand portfolio is the set of all brands and brand lines a particular firm offers for sale in a particular category or market segment. Building a good brand portfolio requires careful thinking and creative execution. In the hotel industry, brand portfolios are critical. Consider Starwood. 85 United Technology has adopted a "house of brands" strategy with a diverse brand portfolio, including Pratt & Whitney aircraft engines. So ur ce : © S to ck tr ek Im ag es , I nc ./ A la m y 324 PART 4 | Building STRong BRAndS sTarwOOd hOTeLs & resOrTs One of the leading hotel and leisure companies in the world, Starwood Hotels & Resorts Worldwide has more than 1,200 properties in 100 countries and 181,400 employees at its owned and managed properties. In its rebranding attempt to go "beyond beds," Starwood has differentiated its hotels along emotional, experiential lines. Its hotel and call center operators convey different experiences at the firm's different chains, as does the firm's advertising. Starwood has nine distinct lifestyle brands in its portfolio. Here is how some of them are positioned: • Sheraton. The largest brand, Sheraton is about warm, comforting, and casual. Its core value centers on "con- nections"—Sheraton enables you to connect to your location and to those back home. • Four Points by Sheraton. For the self-sufficient traveler, Four Points is a select-service hotel that strives to be honest and uncomplicated. The brand is all about providing the comforts of home with little indulgences like local craft beers and free high-speed Internet access and bottled water. • W. With a brand personality defined as flirty, for the insider, and an escape, W offers guests unique locally inspired experiences with a "What's New/What's Next" attitude. W's "Whatever/Whenever" service comple- ments the sylish designs in its lobby gathering places and signature bars and restaurants. • Westin. Westin's emphasis on "personal, instinctive, and renewal" has led to a new sensory welcome featur- ing a white tea scent, signature music and lighting, and refreshing towels. Each room features Westin's own "Heavenly" bed and bath products. The hallmark of an optimal brand portfolio is the ability of each brand in it to maximize equity in combination with all the other brands in it. Marketers generally need to trade off market coverage with costs and profitability. If they can increase profits by dropping brands, a portfolio is too big; if they can increase profits by adding brands, it's not big enough. The basic principle in designing a brand portfolio is to maximize market coverage so no potential customers are being ignored, but minimize brand overlap so brands are not competing for customer approval. Each brand should be clearly differentiated and appealing to a sizable enough marketing segment to justify its marketing and produc- tion costs. Consider these two B-to-B and B-to-C examples. • Dow Corning has adopted a dual-brand approach to sell its silicon, which is used as an ingredient by many com- panies. Silicon under the Dow Corning name uses a "high touch" approach where customers receive much atten- tion and support; silicon sold under the Xiameter name uses a "no frills" approach emphasizing low prices.86 • Unilever, partnering with PepsiCo, sells four distinct brands of ready-to-drink iced tea. Brisk Iced Tea is an "on ramp" brand that is an entry point and a "flavor-forward" value brand; Lipton Iced Tea is a mainstream brand with an appealing blend of flavor and tea; Lipton Pure Leaf Iced Tea is premium and "tea-forward" for tea purists; and Tazo is a super-premium, niche brand.87 Marketers carefully monitor brand portfolios over time to identify weak brands and kill unprofitable ones.88 Brand lines with poorly differentiated brands are likely to be characterized by much cannibalization and require pruning. There are scores of cereals, beverages, and snacks and thousands of mutual funds. Students can choose among hundreds of business schools. For the seller, this spells hypercompetition. For the buyer, as Chapter 13 points out, it may mean too much choice. Brands can also play a number of specific roles as part of a portfolio. Flankers Flanker or fighter brands are positioned with respect to competitors' brands so that more important (and more profitable) flagship brands can retain their desired positioning. Busch Bavarian is priced and marketed to protect Anheuser-Busch's premium Budweiser.89 Marketers walk a fine line in designing fighter brands, which must be neither so attractive that they take sales away from their higher-priced comparison brands nor designed so cheaply that they reflect poorly on them. Cash Cows Some brands may be kept around despite dwindling sales because they manage to maintain their profitability with virtually no marketing support. Companies can effectively milk these "cash cow" brands by capitalizing on their reservoir of brand equity. Gillette still sells the older Atra, Sensor, and Mach III razors because withdrawing them may not necessarily move customers to another Gillette razor brand. low-end enTry leVel The role of a relatively low-priced brand in the portfolio often may be to attract customers to the brand franchise. Retailers like to feature these "traffic builders" because they are able to trade up customers to a higher-priced brand. Toyota's Scion, with its quirky design and low prices, has a very specific CReATing BRAnd equiTy | chapter 11 325 target: people in their early 30s or under. Its specific marketing mission is to capture buyers who have not purchased anything from Toyota to move them into the franchise. The youngest average customers in the industry for eight years running, Scion drivers are in fact three-quarters first-time Toyota buyers90. high-end presTige The role of a relatively high-priced brand often is to add prestige and credibility to the entire portfolio. One analyst argued that the real value to Chevrolet of its high-performance Corvette sports car was "its ability to lure curious customers into showrooms and at the same time help improve the image of other Chevrolet cars. It does not mean a hell of a lot for GM profitability, but there is no question that it is a traffic builder."91 Corvette's technological image and prestige cast a halo over the entire Chevrolet line. BRand exTensIons Many firms have decided to leverage their most valuable asset by introducing a host of new products under their strongest brand names. Most new products are in fact brand extensions—typically 80 percent to 90 percent in any one year. Moreover, many of the most successful new products, as rated by various sources, are brand extensions. Among the most successful in supermarkets in 2012 were Dunkin' Donuts coffee, Progresso Light soups, and Hormel Compleats microwave meals. Nevertheless, many new products are introduced each year as new brands. The year 2012 also saw the launch of Zyrtec allergy relief medicine and Ped Egg foot files. adVanTages oF Brand exTensions Two main advantages of brand extensions are that they can facilitate new-product acceptance and provide positive feedback to the parent brand and company. Improved Odds of New-Product Success Consumers form expectations about a new product based on what they know about the parent brand and the extent to which they feel this information is relevant. When Sony introduced a new personal computer tailored for multimedia applications, the Vaio, consumers may have felt comfortable with its anticipated performance because of their experience with and knowledge of other Sony products. By setting up positive expectations, extensions reduce risk. It also may be easier to convince retailers to stock and promote a brand extension because of anticipated increased customer demand. An introductory campaign for an extension doesn't need to create awareness of both the brand and the new product; it can concentrate on the new product itself.92 Extensions can thus reduce launch costs, important given that establishing a major new brand name for a con- sumer packaged good in the U.S. marketplace can cost more than $100 million! Extensions also can avoid the dif- ficulty—and expense—of coming up with a new name and allow for packaging and labeling efficiencies. Similar or identical packages and labels can lower production costs for extensions and, if coordinated properly, provide more prominence in the retail store via a "billboard" effect.93 Stouffer's offers a variety of frozen entrees with identical or- ange packaging that increases their visibility when they're stocked together in the freezer. With a portfolio of brand variants within a product category, consumers who want a change can switch to a different product type without having to leave the brand family. Toyota Scion plays an important role as an entry level offering for the entire Toyota product line. So ur ce : D av id D ew hu rs t 326 PART 4 | Building STRong BRAndS Positive Feedback Effects Besides facilitating acceptance of new products, brand extensions can provide feedback benefits.94 They can help to clarify the meaning of a brand and its core values or improve consumer loyalty to the company behind the extension.95 Through their brand extensions, Crayola means "colorful arts and crafts for kids," Aunt Jemima means "breakfast foods," and Weight Watchers means "weight loss and maintenance." Brand extensions can renew interest and liking for the brand and benefit the parent brand by expanding mar- ket coverage. AB InBev introduced its Budweiser Black Crown line extension—a beer with more alcohol and a stronger hops taste than regular Budweiser—with several purposes. The company hoped to both attract a younger audience being wooed by the explosion of craft brews and reinvigorate the core brand with its established base.96 A successful category extension may not only reinforce the parent brand and open up a new market but also facilitate even more new category extensions.97 The success of Apple's iPod and iTunes products was that they: (1) opened up a new market, (2) helped sales of core Mac products, and (3) paved the way for the launch of the iPhone and iPad products. disadVanTages oF Brand exTensions On the downside, line extensions may cause the brand name to be less strongly identified with any one product. Al Ries and Jack Trout call this the "line-extension trap."98 By linking its brand to mainstream food products such as mashed potatoes, powdered milk, soups, and beverages, Cadbury ran the risk of losing its more specific meaning as a chocolate and candy brand.99 Brand dilution occurs when consumers no longer associate a brand with a specific or highly similar set of products and start thinking less of the brand. Porsche found sales success with its Cayenne sport-utility vehicle and Panamera four-door sedan, which accounted for three-quarters of its vehicle sales in 2012, but some critics felt the company was watering down its sports car image in the process. Perhaps in response, Porsche has dialed up its on- and off-road test tracks, driving courses, and roadshow events in recent years to help customers get the adrenaline rush of driving a legendary Porsche 911 or Boxster roadster.100 If a firm launches extensions consumers deem inappropriate, they may question the integrity of the brand or become confused or even frustrated: Which version of the product is the "right one" for them? Do they know the brand as well as they thought they did? Retailers reject many new products and brands because they don't have the shelf or display space for them. And the firm itself may become overwhelmed. The worst possible scenario is for an extension not only to fail, but to harm the parent brand in the process. Fortunately, such events are rare. "Marketing failures," in which too few consumers are attracted to a brand, are typically much less damaging than "product failures," in which the brand fundamentally fails to live up to its promise. Even then, product failures dilute brand equity only when the extension is seen as very similar to the parent brand. The Audi 5000 car suffered from a tidal wave of negative publicity and word of mouth in the mid-1980s when it was alleged to have a "sudden acceleration" problem. The adverse publicity spilled over to the 4000 model. But the Quattro was relatively insulated because it was distanced from the 5000 by its more distinct branding and advertising strategy.101 Even if sales of a brand extension are high and meet targets, the revenue may be coming from consum- ers switching to the extension from existing parent-brand offerings—in effect cannibalizing the parent brand. Intrabrand shifts in sales may not necessarily be undesirable if they're a form of preemptive cannibalization. In other words, consumers who switched to a line extension might otherwise have switched to a competing brand instead. Tide laundry detergent maintains the same market share it had 50 years ago because of the sales contribu- tions of its various line extensions—scented and unscented powder, tablet, liquid, and other forms. One easily overlooked disadvantage of brand extensions is that the firm forgoes the chance to create a new brand with its own unique image and equity. Consider the long-term financial advantages to Disney of having introduced more grown-up Touchstone films, to Levi's of creating casual Dockers pants, and to Black & Decker of introducing high-end DeWALT power tools. suCCess CharaCTerisTiCs Marketers must judge each potential brand extension by how effectively it leverages existing brand equity from the parent brand as well as how effectively, in turn, it contributes to the parent brand's equity. Crest Whitestrips leveraged the strong reputation of Crest and dental care to provide reassurance in the teeth-whitening arena while also reinforcing its dental authority image. Marketers should ask a number of questions in judging the potential success of an extension.102 • Does the parent brand have strong equity? • Is there a strong basis of fit? • Will the extension have the optimal points-of-parity and points-of-difference? • How can marketing programs enhance extension equity? • What implications will the extension have for parent brand equity and profitability? • How should feedback effects best be managed? CReATing BRAnd equiTy | chapter 11 327 To help answer these questions, Table 11.3 offers a sample scorecard with specific weights and dimensions that users can adjust for each application. TaBle 11.3 Brand Extendibility Scorecard Allocate points according to how well the new product concept rates on the specific dimensions in the following areas: Consumer Perspectives: Desirability 10 pts. _____ Product category appeal (size, growth potential) 10 pts. _____ Equity transfer (perceived brand fit) 5 pts. _____ Perceived consumer target fit Company Perspectives: Deliverability 10 pts. _____ Asset leverage (product technology, organizational skills, marketing effectiveness via channels and communications) 10 pts. _____ Profit potential 5 pts. _____ Launch feasibility Competitive Perspectives: Differentiability 10 pts. _____ Comparative appeal (many advantages; few disadvantages) 10 pts. _____ Competitive response (likelihood; immunity or invulnerability from) 5 pts. _____ Legal/regulatory/institutional barriers Brand Perspectives: Equity Feedback 10 pts. _____ Strengthens parent brand equity 10 pts. _____ Facilitates additional brand extension opportunities 5 pts. _____ Improves asset base TOTAL _____ pts. Table 11.4 lists a number of academic research findings on brand extensions.103 One major mistake in evaluat- ing extension opportunities is failing to take all consumers' brand knowledge structures into account and focusing instead on one or a few brand associations as a potential basis of fit.104 Bic is a classic example of that mistake.105 TaBle 11.4 Research Insights on Brand Extensions • Successful brand extensions occur when the parent brand is seen as having favorable associations and there is a perception of fit between the parent brand and the extension product. • There are many bases of fit: product-related attributes and benefits, as well as nonproduct-related attributes and benefits related to common usage situations or user types. • Depending on consumer knowledge of the categories, perceptions of fit may be based on technical or manufacturing commonalties or more surface considerations such as necessary or situational complementarity. • High-quality brands stretch farther than average-quality brands, although both types of brands have boundaries. • A brand that is seen as prototypical of a product category can be difficult to extend outside the category. • Concrete attribute associations tend to be more difficult to extend than abstract benefit associations. (continued) 328 PART 4 | Building STRong BRAndS Finally, we can relate brand equity to one other important marketing concept: customer equity. The aim of customer relationship management (CRM) is to produce high customer equity.106 Although we can calculate it in different ways, one definition is "the sum of lifetime values of all customers."107 As Chapter 5 reviewed, customer lifetime value is affected by revenue and by the costs of customer acquisition, retention, and cross-selling.108 • Acquisition depends on the number of prospects, the acquisition probability of a prospect, and acquisition spending per prospect. • Retention is influenced by the retention rate and retention spending level. • Add-on spending is a function of the efficiency of add-on selling, the number of add-on selling offers given to existing customers, and the response rate to new offers. The brand equity and customer equity perspectives certainly share many common themes.109 Both emphasize the importance of customer loyalty and the notion that we create value by having as many customers as possible pay as high a price as possible. bIC The French company Société Bic, by emphasizing inexpensive, disposable products, was able to create markets for nonrefillable ballpoint pens in the late 1950s, disposable cigarette lighters in the early 1970s, and disposable razors in the early 1980s. It unsuccessfully tried the same strategy in marketing BIC perfumes in the United States and Europe in 1989. The perfumes—two for women ("Nuit" and "Jour") and two for men ("BIC for Men" and "BIC Sport for Men")—were packaged in quarter-ounce glass spray bottles that looked like fat cigarette lighters and sold for $5 each. The products were displayed on racks at checkout counters throughout Bic's extensive distribution channels. At the time, a Bic spokeswoman described the new products as extensions of the Bic heritage—"high quality at affordable prices, convenient to purchase, and convenient to use." The brand extension was launched with a $20 million advertising and promotion campaign contain- ing images of stylish people enjoying themselves with the perfume and using the tagline "Paris in Your Pocket." Nevertheless, Bic was unable to overcome its lack of cachet and negative image associations, and the extension was a failure. Customer Equity Achieving brand equity should be a top priority for any organization. "Marketing Memo: Twenty-First-Century Branding" offers some wise advice on continued brand success. TaBle 11.4 Continued • Consumers may transfer associations that are positive in the original product class but become negative in the ex- tension context. • Consumers may infer negative associations about an extension, perhaps even based on other inferred positive associations. • It can be difficult to extend into a product class that is seen as easy to make. • A successful extension cannot only contribute to the parent brand image but also enable a brand to be extended even farther. • An unsuccessful extension hurts the parent brand only when there is a strong basis of fit between the two. • An unsuccessful extension does not prevent a firm from "backtracking" and introducing a more similar extension. • Vertical extensions can be difficult and often require sub-branding strategies. • The most effective advertising strategy for an extension emphasizes information about the extension (rather than reminders about the parent brand). Source: Kevin Lane Keller, Strategic Brand Management, 4th ed. (Upper Saddle River, NJ: Pearson, 2013). Printed and electronically reproduced by permission of Pearson Education, Inc., Upper Saddle River, NJ. CReATing BRAnd equiTy | chapter 11 329 An early pioneer in the study of branding and still active as a brand strategist, David Aaker has much experience with what makes brands successful. Here are his top ten "to do tasks" for marketers—what you need to know to excel at brand building. 1. Treat brands as assets. Brand strategy needs to be developed in tandem with business strategy. 2. Show the strategic payoff of brand building. Show how the success of a business strategy depended on brand assets. 3. Recognize the richness of brands—go beyond the three-word phrase. Although two to four associations are often the most import, understand the full range of associations that are cued by the brand. 4. Get beyond functional benefits. Emotional and self-expressive benefits and brand personality can provide a basis for sustainable differentiation and a deep customer relationship. 5. Consider organizational associations—people, programs, values, strategies, and heritage that are unique to the company and meaningful to customers. 6. Look to role models. What other companies have been successful with similar branding efforts? Are there any people or programs internal to the firm that exemplify desired characteristics for the brand? 7. Understand the brand relationship spectrum and the right degree of separation for new offerings. 8. Look for branded differentiators. Even functional benefits, if copied, can remain distinctive if given a strong brand identify initially. 9. Use branded energizers—a branded person or program you can associate with your brand. 10. Win the brand relevance battle—make your competitors seem irrelevant. Twenty-First-Century Brandingmarketing memo Source: "David Aaker's Top 10 Brand Precepts," white paper, www.prophet.com. For more insights into branding best practices, see Allen Adamson, The Edge: 50 Tips from Brands That Lead (New York: Palgrave Macmillan, 2013). In practice, however, the two perspectives emphasize different things. The customer equity perspective focuses on bottom-line financial value. Its clear benefit is its quantifiable measures of financial performance. But it of- fers limited guidance for go-to-market strategies. It largely ignores some of the important advantages of creating a strong brand, such as the ability to attract higher-quality employees, elicit stronger support from channel and supply chain partners, and create growth opportunities through line and category extensions and licensing. The customer equity approach can overlook the "option value" of brands and their potential to affect future revenues and costs. It does not always fully account for competitive moves and countermoves or for social network effects, word of mouth, and customer-to-customer recommendations. Brand equity, on the other hand, tends to emphasize strategic issues in managing brands and creating and le- veraging brand awareness and image with customers. It provides much practical guidance for specific marketing activities. With a focus on brands, however, managers don't always develop detailed customer analyses in terms of the brand equity they achieve or the resulting long-term profitability they create.110 Brand equity approaches could benefit from sharper segmentation schemes afforded by customer-level analyses and more consideration of how to develop personalized, customized marketing programs—whether for individuals or for organizations such as retailers. There are generally fewer financial considerations put into play with brand equity than with customer equity. Nevertheless, both brand equity and customer equity matter. There are no brands without customers and no customers without brands. Brands serve as the "bait" that retailers and other channel intermediaries use to attract customers from whom they extract value. Customers are the tangible profit engine for brands to monetize their brand value. 330 PART 4 | Building STRong BRAndS some other entity (the company, country of origin, chan- nel of distribution, or another brand). 5. Brand audits measure "where the brand has been," and tracking studies measure "where the brand is now" and whether marketing programs are having the intended effects. 6. A branding strategy identifies which brand elements a firm chooses to apply across the various products it sells. In a brand extension, a firm uses an established brand name to introduce a new product. Potential extensions must be judged by how effectively they leverage existing brand equity to a new product, as well as how effectively they contribute to the equity of the parent brand in turn. 7. Brands may expand coverage, provide protection, extend an image, or fulfill a variety of other roles for the firm. Each brand-name product must have a well- defined positioning to maximize coverage, minimize overlap, and thus optimize the portfolio. 8. Customer equity is a concept that is complementary to brand equity and reflects the sum of lifetime values of all customers for a brand. Summary 1. A brand is a name, term, sign, symbol, design, or some combination of these elements, intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competitors. The different components of a brand—brand names, lo- gos, symbols, package designs, and so on—are called brand elements. 2. Brands are valuable intangible assets that offer a num- ber of benefits to customers and firms and need to be managed carefully. The key to branding is that consum- ers perceive differences among brands in a product cat- egory. 3. Brand equity should be defined in terms of marketing effects uniquely attributable to a brand. That is, different outcomes result when a product or service is marketed under its brand than when it is not. 4. Building brand equity depends on three main factors: (1) The initial choices for the brand elements or identities making up the brand; (2) the way the brand is integrated into the supporting marketing program; and (3) the as- sociations indirectly transferred to the brand by links to MyMarketingLab go to mymktlab.com to complete the problems marked with this icon as well as for additional auto-graded and assisted-graded writing questions. Applications Marketing Debate Are Brand Extensions Good or Bad? Some critics vigorously denounce the practice of brand ex- tensions because they feel that too often companies lose focus and consumers become confused. Other experts maintain that brand extensions are a critical growth strategy and source of revenue for the firm. Take a position: Brand extensions can endanger brands versus Brand extensions are an important brand-growth strategy. Marketing Discussion Brand Equity Models How can you relate the different models of brand equity in this chapter to one another? How are they similar? How are they different? Can you construct a brand-equity model that incorporates the best aspects of each model? CReATing BRAnd equiTy | chapter 11 331 offerings failed on many fronts. Product launches like pizza, the Arch Deluxe, fajitas, and deli sandwiches did not connect with consumers, nor did tweaks to the cur- rent menu like multiple changes to the Big Mac special sauce. Jim Skinner, McDonald's former chief executive, explained, "We got distracted from the most important thing: hot, high-quality food at a great value at the speed and convenience of McDonald's." In 2003, McDonald's implemented a strategic ef- fort called the Plan to Win. Still in effect, the plan helped McDonald's restaurants refocus on offering a better, higher-quality consumer experience rather than a quick and cheap fast-food option. Its "playbook" provided strategic insight on how to improve on the company's 5 Ps—people, products, promotions, price, and place—yet allow local restaurants to adapt to different environments and cultures. For example, McDonald's introduced a Bacon Roll breakfast sandwich in the United Kingdom, a premium M burger in France, and an egg, tomato, and pepper McPuff in China. Prices also varied slightly across the United States to better reflect different regional tastes. Some changes that initially helped turn the com- pany around included offering more chicken options as beef consumption started to decline, selling milk in a bottle instead of a carton, and removing "Super Size" options after the documentary "Super Size Me" targeted McDonald's and its link to obesity. The company re- sponded to customers' desire for healthy foods with pre- mium salads and apple slices instead of French fries in its Happy Meals. It also dismissed claims of "mystery meat" by introducing all-white-meat McNuggets. Many of these healthier options targeted moms and charged a premium price. Meanwhile, McDonald's tar- geted teenagers and its lower-income consumers with the introduction of the $1 menu. The company improved its drive-thru service, added more snack options, and refurbished restaurants with leather seats, warm paint colors, Wi-Fi, and flat-screen TVs. In many locations it created three different "zones" that fit the needs of each target audience: a linger zone with comfortable sofas where teenagers could hang out and socialize, a family zone with tables and chairs that could easily be reconfig- ured, and an efficient zone for consumers who needed to grab a quick bite and go. Initial results were staggering; from 2003 to 2006, revenues increased 33 percent and share price soared 170 percent. In 2008, McDonald's was one of only two companies in the Dow Jones industrial average whose share price rose during the worldwide recession. Sales continued to increase, and in 2012, McDonald's experi- enced record revenues of $27 billion. Today, McDonald's increases its consumer base through global growth and product expansion. For ex- ample, the successful introduction of McCafé directly Marketing Excellence >> McDonald's McDonald's is the world's leading hamburger fast-food chain with more than 34,000 restaurants in 119 coun- tries. More than 80 percent of McDonald's restaurants are owned and operated by franchisees, which decreases the risk associated with expansion and ensures long-term tenants for the company. McDonald's serves 70 million people each day and promises an easy and enjoyable food experience for its customers. McDonald's Corporation dates back to 1955 when Ray Kroc, a multi-mixer salesman, franchised a ham- burger restaurant from the McDonald brothers. Kroc named it McDonald's and offered simple foods such as the famous 15-cent hamburger. He helped design the building, which featured red and white sides and a single golden arch that attracted local attention. Just 10 years later, McDonald's had expanded to more than 700 U.S. restaurants, and the brand was on its way to becoming a household name. During the 1960s and 1970s, Kroc led McDonald's growth domestically and internationally but always re- inforced the importance of quality, service, cleanliness, and value. The menu expanded to include iconic items such the Big Mac, the Quarter Pounder, the Happy Meal, Filet-O-Fish, and breakfast items like the Egg McMuffin. The company ramped up its advertising as well. To target its core audience—children and families—it introduced Ronald McDonald during a 60-second commercial in 1965. Soon, characters like Grimace, the Hamburgler, and Mayor McCheese made their debut in McDonald's advertising and helped lure children into its restaurants for familiar food and a fun experience. In 1974, McDonald's opened the Ronald McDonald House, a charitable cause to help children with leuke- mia. Since then, it has expanded into a global effort called Ronald McDonald House Charities that consists of three major programs: Ronald McDonald House, Ronald McDonald Family Room, and Ronald McDonald Care Mobile. McDonald's aggressively expanded overseas during the 1980s by adding locations throughout Europe, Asia, the Philippines, and Malaysia. However, this rapid growth led to many struggles during the 1990s and early 2000s. The company lost focus and direction as it added as many as 2,000 new restaurants a year. New employees weren't trained fast enough or well enough, which led to poor customer service and dirtier restaurants. In addition, new healthier-option competitors popped up such as Subway and Panera Bread. Consumers' tastes and eating trends also started to change in the early 2000s, and McDonald's new food 332 PART 4 | Building STRong BRAndS 2. How has McDonald's grown its brand equity over the years? Has McDonald's changed in different economic times or in different parts of the world? Explain. 3. What risks do you think McDonald's will face in the future? Sources: Andrew Martin, "At McDonald's, the Happiest Meal Is Hot Profits," The New York Times, January 10, 2009; Janet Adamy, "McDonald's Seeks Way to Keep Sizzling," Wall Street Journal, March 10, 2009; Matt Vella, "McDonald's Thinks about the Box," Businessweek, December 8, 2008; Jessica Wohl, "McDonald's CEO: Tough Economy, but Some 'Thawing,'" Reuters, April 17, 2009; "Interbrand's Best Global Brands 2012," Interbrand.com; Rance Crain, "Has Time Run Out for McDonald's Brand Chronicle after 10 years?" Ad Age, December 2, 2013; McDonald's 2012 Annual Report. targeted consumers in the booming coffee industry and stole share from companies like Starbucks, Dunkin' Donuts, and Caribou Coffee. It is a good example of how McDonald's works to appeal to new consumers and aims to stay relevant through the years. Its current campaign, "I'm Lovin' It," seems to connect with McDonald's large consumer base and keep them coming back again and again. Questions 1. What are McDonald's core brand values? Have these changed over the years? Long-term outlook: P&G takes the time to analyze each opportunity carefully before acting. Once committed, the company develops the best product possible and exe- cutes it with the determination to make it a success. For example, it struggled with Pringles potato chips for almost a decade before achieving market success. Recently, P&G has increased its presence in developing markets by focusing on affordability, brand awareness, and distribu- tion through e-commerce and high-frequency stores. Product innovation: P&G is an active product innova- tor. The company employs 1,000 science PhDs, more than Harvard, Berkeley, and MIT combined, and applies for roughly 3,800 patents each year. Part of its innova- tion process is to develop brands that offer new consumer benefits. Recent innovations that created entirely new cat- egories include Febreze, an odor-eliminating fabric spray; Dryel, a product that helps "dry-clean" clothes at home in the dryer; and Swiffer, a cleaning system that effectively removes dust, dirt, and hair from floors. Larry Huston, for- mer innovation officer at P&G, stated, "P&G is largely a branded science company." Quality strategy: P&G designs products of above- average quality and continuously improves and reformu- lates them. When the company says "new and improved," it means it. Recent examples include Tide Pods, a com- pact laundry detergent tablet; Pampers Rash Guard, a diaper that treats and prevents diaper rash; and improved two-in-one shampoo and conditioner products Pantene, Vidal Sassoon, and Pert Plus. Brand extension strategy: P&G produces its brands in several sizes and forms. This strategy gains more shelf space and prevents competitors from moving in to sat- isfy unmet market needs. P&G also uses its strong brand names to launch new products with instant recognition and much less advertising outlay. The Mr. Clean brand has been extended from household cleaner to bathroom Marketing Excellence >> Procter & Gamble Procter & Gamble (P&G) began in 1837 when brothers- in-law William Procter and James Gamble formed a small candle and soap company. Over the next 150 years, P&G innovated and launched scores of revolutionary products with superior quality and value, including Ivory soap in 1882, Tide laundry detergent in 1946, Crest toothpaste with fluoride in 1955, and Pampers disposable diapers in 1961. The company also opened the door to new product categories by acquiring a number of companies, including Richardson-Vicks (makers of personal care products like Pantene, Olay, and Vicks), Norwich Eaton Pharmaceuticals (makers of Pepto-Bismol), Gillette, Noxell (makers of Noxzema), Shulton's Old Spice, Max Factor, and the Iams pet food company. Today, Procter & Gamble is one of the most skillful marketers of consumer-packaged goods in the world and holds one of the most powerful portfolios of trusted brands. The company employs 121,000 people in about 80 countries worldwide, has 25 billion-dollar global brands, spends more than $2 billion annually on R&D, and has total worldwide sales in excess of $84 billion a year. Its sustained market leadership rests on a number of different capabilities and philosophies. These include: Customer knowledge: P&G studies its customers— both the end consumers and its trade partners—through continuous marketing research and intelligence gathering. It spends more than $100 million annually on more than 10,000 formal consumer research projects and generates more than 3 million consumer contacts via its e-mail and phone center. The company also encourages its market- ers and researchers to be out in the field, interacting with consumers and retailers in their home environment. CReATing BRAnd equiTy | chapter 11 333 responsible for each brand. The system has been copied by many competitors but not often with P&G's success. Recently, P&G modified its general management structure so that a category manager runs each brand category and has volume and profit responsibility. Although this new or- ganization does not replace the brand-management sys- tem, it helps to sharpen strategic focus on key consumer needs and competition in the category. P&G's accomplishments over the past 177 years have come from successfully managing the numerous factors that contribute to market leadership. Today, the company's wide range of products are used by 4.8 billion people around the world in 180 different countries. Questions 1. P&G's impressive portfolio includes some of the strongest brand names in the world. What are some of the challenges associated with being the market leader in so many different categories? 2. With social media becoming increasingly important and fewer people watching traditional commercials on television, what does P&G need to do to maintain its strong brand images? 3. What risks will P&G face in the future? Sources: Robert Berner, "Detergent Can Be So Much More," Business Week, May 1, 2006, pp. 66–68; "A Post-Modern Proctoid," The Economist, April 15, 2006, p. 68; P&G Fact Sheet (December 2006); John Galvin, "The World on a String," Point, February 2005, pp. 13–24; Jack Neff, "P&G Kisses Up to the Boss: Consumers," Advertising Age, May 2, 2005, p. 18; "The Nielsen Company Issues Top Ten U.S. Lists for 2008," press release, The Nielsen Company, December 12, 2008; Lauren Coleman-Lochner and Carol Hymowitz, "At Procter and Gamble, the Innovation Well Runs Dry," Business week, September 6, 2012; www.pg.com; Procter and Gamble 2013 Annual Report. cleaner and even to a carwash system. Old Spice extend- ed its brand from men's fragrances to deodorant. Often, P&G will leverage the technologies already in place to cre- ate a brand extension. For example, when Crest success- fully extended its brand into a new tooth-whitening system called Crest Whitestrips, the company used bleaching methods from P&G's laundry division, film technology from the food wrap division, and glue techniques from the paper division. Multibrand strategy: P&G markets several brands in the same product category, such as Luvs and Pampers diapers and Oral-B and Crest toothbrushes. Each brand meets a different consumer want and competes against specific competitors' brands. At the same time, the com- pany is careful not to sell too many brands and recently reduced its vast array of products, sizes, flavors, and vari- eties to assemble a stronger brand portfolio. Strong sales force: P&G's sales force has been named one of the top 25 sales forces by Sales & Marketing Man- agement magazine. A key to its success is the close tie its sales force forms with retailers, notably Walmart. The 150-person team that serves the retail giant works closely with Walmart to improve both the products that go to the stores and the process by which they get there. Manufacturing efficiency and cost cutting: P&G's reputation as a great marketing company is matched by its excellence as a manufacturing company. The company has successfully developed and continually improves its production operations, which keep costs among the low- est in the industry. As a result, it is able to offer reduced prices for its premium products. Brand-management system: P&G originated the brand-management system, in which one executive is 334 In This Chapter, We Will Address the Following Questions 1. Why is it important for companies to grow the core of their business? (p. 335) 2. How can market leaders expand the total market and defend market share? (p. 337) 3. How should market challengers attack market leaders? (p. 342) 4. How can market followers or nichers compete effectively? (p. 344) 5. What marketing strategies are appropriate at each stage of the product life cycle? (p. 348) 6. How should marketers adjust their strategies and tactics during slow economic growth? (p. 359) FedEx now offers ground shipping and UPS now offers air shipping so each com- pany can better compete with the other. Source: Andrew Kelly/Insider Images/Polaris/Newscom MyMarketingLab™ Improve Your Grade! Over 10 million students improved their results using the Pearson MyLabs. Visit mymktlab.com for simulations, tutorials, and end-of-chapter problems. 335 This chapter examines growth, the role competi- tion plays, and how marketers can best manage their brands given their market position and stage of the product life cycle. Competition grows more intense every year—from global com- petitors eager to enter new markets, from online competitors seeking cost-efficient ways to expand distribution, from private- label and store brands providing low-price alternatives, and from brand extensions by mega-brands moving into new cate- gories. For these reasons and more, product and brand fortunes change over time, and marketers must respond accordingly. Growth is essential for the success of any firm. Thus, to be a long-term market leader is the goal of any marketer. Today's challenging marketing circumstances often dictate that companies refor- mulate their marketing strategies and offerings several times. Economic conditions change, competitors launch new assaults, and buyer interest and requirements evolve. Though the years an interesting competitive battle has been fought between FedEx and UPS in which each has been a challenger on the other's home turf.1 Addressing Competition and Driving Growth 12 After FedEx watched UPS successfully invade its airborne delivery system, it invested heavily in ground delivery through a series of acquisitions to challenge UPS on its home turf. The two firms are now in a heated battle to gain the upper hand in the marketplace. Both are moving into the fast-growing, multi- billion-dollar Chinese domestic delivery market, where FedEx has a head start and a bigger operation. Overseas markets are attractive for both firms, given that a little more than half of FedEx revenue and almost two-thirds of UPS revenue comes from the domestic U.S. market. Combined, the two companies account for an impressive 10 percent of U.S. gross domestic product (GDP). To expand their reach and the range of services they can provide, both are making strategic acquisitions of delivery companies all over the world, none bigger than UPS's attempted purchase of TNT, blocked at least initially by European regulators. Back in their home U.S. markets, both firms are trying to lock in customers with custom- ized door-to-door deliveries. Fueled by the rapid rise of online shopping, residential deliveries are growing fast, and FedEx has the advantage of being able to make Saturday deliveries. Advertising "UPS Loves Logis- tics," UPS has made a strong play with businesses, positioning itself as the "logistics expert" capable of providing a broader range of supply- chain services than just deliveries. After FedEx watched UPS successfully invade its airborne delivery system, it invested heavily in ground heated battle to gain the upper hand in the marketplace. Both are moving into the fast-growing, multi billion-dollar Chinese domestic delivery market, where FedEx has a head start and a bigger operation. Growth An important function of marketing is to drive growth in sales and revenue for a company. Marketing is especially adept at doing so for a new product with many competitive advantages and much potential. Good marketing can help to induce trial and promote word of mouth and diffusion. Marketing in more mature markets can be more challenging. In some cases, fighting over market share is less productive than expanding the size of the market as a whole. Growth StrateGIeS Chapter 2 introduced how companies can grow through expansion with new products and new markets, the detailed focus of Chapters 8 and 15. Along those lines, Phil and Milton Kotler stress the following strategies:2 • Grow by building your market share • Grow by developing committed customers and stakeholders 336 PART 4 | Building STRong BRAndS • Grow by building a powerful brand • Grow by innovating new products, services, and experiences • Grow by international expansion • Grow by acquisitions, mergers, and alliances • Grow by building an outstanding reputation for social responsibility • Grow by partnering with government and NGOs Consider how Under Armour has grown in recent years.3 Under ArMOUr In his days as a University of Maryland football player, Kevin Plank had been dis- satisfied with cotton T-shirts that retained water and became heavy during practice. Under Armour was born when, with $500 and several yards of coat lining, Plank worked with a local tailor to create seven prototypes of snug-fitting T-shirts that absorbed perspiration and kept athletes dry. With a focus on performance and authenticity and backed by intense, in-your-face advertising, the brand quickly became a favorite at high schools, colleges, and universities, later introducing a wide range of athletic apparel as well as football cleats, basketball shoes, and running shoes. By 2009, it was squarely in competition with formidable opponents Nike and Adidas. A traditionally male-oriented brand, Under Armour soon rec- ognized the value of a new target demographic—women. Not wanting to fall back on a "shrink it and pink it" approach, the company united its marketing, product design, and consumer insights departments to develop focused solutions for women. The fully integrated "What's Beautiful" media campaign—with its tagline urging women to "No Matter What, Sweat Every Day"—and the success of its footwear lines have helped the women's division become the fastest-growing Under Armour business. The company is also looking to expand internationally, focusing initially on Europe and Latin America. While Nike and Adidas both generate about 60 percent of their revenue outside their home regions, Under Armour generates only 6 percent outside North America, with very little of that in fast-growing emerging markets like India, China, and Brazil. GrowInG the Core Although many different growth strategies are available to firms, some of the best opportunities come from grow- ing the core—focusing on their most successful existing products and markets. Marketers must avoid the trap of thinking the "grass is always greener" and overestimating the upside of new ventures that stretch the company into uncharted territory. Often a firm's unique capabilities don't effectively translate to a new industry. Mattel's disastrous acquisition of the Learning Company in 1999 failed in part because the toy company's expertise was not as valuable in the interactive-learning market. Further, an industry that is red-hot today may be ice-cold tomorrow.4 Growing the core can be a less risky alternative than expansion into new product categories. It strengthens a brand's credentials as a source of authority and credibility and can yield economies of scale. Through improved revenues and lower costs, growing the core can also lead to greater profits. UK marketing guru David Taylor advo- cates three main strategies, citing these examples:5 1. Make the core of the brand as distinctive as possible. Galaxy chocolate has successfully competed with Cadbury by positioning itself as "your partner in chocolate indulgence" and featuring smoother product shapes, more refined taste, and sleeker packaging, 2. Drive distribution through both existing and new channels. Costa Coffee, the number-one coffee shop in the United Kingdom, has found new distribution routes using drive-through outlets, vending machines at service stations, and in-school coffee shops. 3. Offer the core product in new formats or versions. WD40 offers a Smart Straw version of its popular multi- purpose lubricant with a built-in straw that pops up for use. Many firms are seeking success by focusing on their core businesses. London-based Aegis Group sold market research firm Synovate in order to focus on becoming media and digital communciation specialists.6 Levi Strauss phased out its Denizen brand in Asia to focus on its core Levi's brand.7 Growth strategies are not necessarily "either/or" propositions. A focus on core businesses does not mean forego- ing new market opportunities. Vancouver, Canada's Fortuna Silver Mines has focused on its two fully owned, fully AddReSSing ComPeTiTion And dRiving gRowTh | chapter 12 337 integrated silver mines in Peru and Mexico to spur organic growth while looking for a third mine to drive further growth.8 And sometimes the core business is just not expandable. With personal computer sales steadily declining, leading PC maker Lenovo began to look at smart phones as a new source of business for its brand.9 Competitive Strategies for Market Leaders Suppose a market is occupied by the firms shown in Figure 12.1. Forty percent is in the hands of a market leader, another 30 percent belongs to a market chal- lenger, and 20 percent is claimed by a market follower willing to maintain its share and not rock the boat. Market nichers, serving small segments larger firms don't reach, hold the remaining 10 percent. Sometimes growth depends on adopting the right competitive strategies. A market leader has the largest market share and usually leads in price changes, new-product introductions, distribution coverage, and promotional intensity. Some historical market leaders are Microsoft (computer software), Gatorade (sports drinks), Best Buy (retail electronics), McDonald's (fast food), BlueCross BlueShield (health insurance), and Visa (credit cards). Although marketers assume well-known brands are distinctive in con- sumers' minds, unless a dominant firm enjoys a legal monopoly, it must maintain constant vigilance. A powerful product innovation may come along, a competitor might find a fresh marketing angle or commit to a major mar- keting investment, or the leader's cost structure might spiral upward. One well-known brand and market leader that has worked hard to stay on top is Xerox.10 XerOX Xerox has had to become much more than just a copier company. Now a blue-chip icon with the name that became a verb, the company sports the broadest array of imaging products in the world and dominates the market for high-end printing systems while also offering a new range of printing and business-related services. It has made a product line transition from the old light lens technology to digital systems and is finding ways to make color copying less expensive and even to print in 3-D. Xerox provides broader document and print-manager services to help companies lower costs by eliminating desktop printers, reducing paper use, and installing multifunction multi- user devices that are more efficient, break down less, and use cheaper supplies. Under CEO Ursula Burns, the firm is becoming more of a services company, providing bill processing, business processing, and IT outsourcing. A $6.4 billion acquisition of Affiliated Computer Services (ACS) allowed Xerox to plunge its technology into back-office opera- tions. A call to Virgin America customer care, a paper or online submission of a health insurance claim, and a query to solve a smart phone problem all might be handled by a Xerox employee. A new Xerox device—a compact com- puter with scanning, printing, and Internet capabilities—allows ACS insurance agents in the field to scan claims on- site to be sorted, routed, and put immediately into a workflow system. Xerox is embracing technology in its marketing too. The company's "Information Overload" campaign employed a personalized video, e-mail campaign, and direct mail piece. Each customer received a personalized URL (PURL) based on his or her behavior and interests, leading to click-through rates of 35 percent to 40 percent as opposed to the typical 1 percent to 2 percent industry rates. A new print and TV ad campaign, "Simplicity by the Numbers," acknowledges the brand's heritage while highlighting its new capabilities. One TV ad opened with a women standing in front of a copier saying, "When I say Xerox, I know what you're thinking," After printing the image of a transit map, she states, "Transit fares, as in the 37 billion transit fares we help collect each year." So ur ce : P R N E W SW IR E Under Armour's fastest growing business has been with women. 40% Market leader 30% Market challenger 20% Market follower 10% Market nichers | Fig. 12.1 | Hypothetical Market Structure 338 PART 4 | Building STRong BRAndS To stay number one, the firm must first find ways to expand total market demand. Second, it must protect its current share through good defensive and offensive actions. Third, it should increase market share, even if market size remains constant. Let's look at each strategy. expandInG total Market deMand When the total market expands, the dominant firm usually gains the most. If Heinz can convince more people to use ketchup, or to use ketchup with more meals, or to use more ketchup on each occasion, the firm will benefit considerably because it already sells almost two-thirds of the country's ketchup. In general, the market leader should look for new customers or more usage from existing customers. New Customers As Chapter 2 suggested, a company can search for new users among three groups: those who might use it but do not (market-penetration strategy), those who have never used it (new-market segment strategy), or those who live elsewhere (geographical-expansion strategy). Here is how Starbucks has described its multipronged approach to growth on its corporate Web site.11 Starbucks purchases and roasts high-quality whole bean coffees and sells them along with fresh, rich- brewed, Italian style espresso beverages, a variety of pastries and confections, and coffee-related accesso- ries and equipment—primarily through its company-operated retail stores. In addition to sales through our company-operated retail stores, Starbucks sells whole bean coffees through a specialty sales group and supermarkets. Additionally, Starbucks produces and sells bottled Frappuccino® coffee drinks and a line of premium ice creams through its joint venture partnerships and offers a line of innovative premium teas produced by its wholly owned subsidiary, Tazo Tea Company. The Company's objective is to estab- lish Starbucks as the most recognized and respected brand in the world. In targeting new customers, the firm should not lose sight of existing ones. Daimler, maker of Mercedes-Benz, has developed a balanced approach to capitalize on both the established demand from mature markets in the European Union, United States, and Japan and the enormous potential offered by fast-growing emerging markets. As the company's chairman Dieter Zetsche proclaimed, "You cannot do either/or. You have to maintain your strength in traditional markets and even expand it."12 more usage Marketers can try to increase the amount, level, or frequency of consumption. They can sometimes boost the amount through packaging or product redesign. Larger package sizes increase the amount of product consumers use at one time.13 Consumers use more of impulse products such as soft drinks and snacks when the product is made more available. Ironically, some food firms such as Hershey's have developed smaller packaging sizes that have actually increased sales volume through more frequent usage.14 In general, increasing frequency of consumption requires either (1) identifying additional opportunities to use the brand in the same basic way or (2) identifying completely new and different ways to use the brand. Additional Opportunities to Use the Brand A marketing program can communicate the appropriateness and advantages of using the brand. Pepto-Bismol stomach remedies are in 40 percent of U.S. households, but only 7 percent of people claim to have used them in the previous 12 months. To expand usage and make the brand more top of mind, a holiday campaign linked it to party festivities and celebrations with the tag line "Eat, Drink, and Be Covered." In a somewhat similar vein, on the inside of the front flap of its package, Orbit chewing gum puts the message, "Eat. Drink. Chew. A Good Clean Feeling." to reinforce that the brand can be a substitute for brushing teeth.15 Another opportunity arises when consumers' perceptions of their usage differs from reality. Consumers may fail to replace a short-lived product when they should because they overestimate how long it stays fresh or operates effectively.16 One strategy is to tie the act of replacing the product to a holiday, event, or time of year. Marketers of household products such as batteries for alarms and filters for vacuum cleaners, furnaces, and air conditioners use the beginning and end of Daylight Savings Time twice a year as a means to remind consumers. Another approach might be to provide consumers with (1) better information about when they first used the product or need to replace it or (2) a gauge of the current level of product performance. Gillette razor cartridges feature colored stripes that slowly fade with repeated use, signaling the user to move on to the next cartridge. Marketers for Monroe® shock absorbers and struts launched the clever, fully integrated "Everything Gets Old. Even Your Shocks." campaign, which drew comparisons between worn shocks and struts and familiar consumer items that eventually wear out and need to be replaced such as shoes, socks, tires, and even bananas!17 AddReSSing ComPeTiTion And dRiving gRowTh | chapter 12 339 New Ways to Use the Brand The second approach to increasing frequency of consumption is to identify completely new and different applications. Food product companies have long advertised recipes that use their branded products in different ways. After discovering that some consumers used Arm & Hammer baking soda as a refrigerator deodorant, the company launched a heavy promotion campaign focusing on this use and succeeded in getting half the homes in the United States to adopt it. Next, the company expanded the brand into a variety of new product categories such as toothpaste, antiperspirant, and laundry detergent. proteCtInG Market Share While trying to expand total market size, the dominant firm must actively defend its current business: Boeing against Airbus, Staples against Office Depot, and Google against Yahoo! and Microsoft.18 How can the leader do so? The most constructive response is continuous innovation. The front-runner should lead the industry in developing new products and customer services, distribution effectiveness, and cost cutting.

Comprehensive solutions increase competitive strength and value to customers so they feel appreciative or even privileged to be a customer as opposed to feeling trapped or taken advantage of.19 ProActive marketiNg In satisfying customer needs, we can draw a distinction between responsive marketing, anticipative marketing, and creative marketing. A responsive marketer finds a stated need and fills it. An anticipative marketer looks ahead to needs customers may have in the near future. A creative marketer discovers solutions customers did not ask for but to which they enthusiastically respond. Creative marketers are proactive market-driving firms, not just market-driven ones.20 Many companies assume their job is simply to adapt to customer needs. They are reactive mostly because they are overly faithful to the customer-orientation paradigm and fall victim to the "tyranny of the served market." Successful companies instead proactively shape the market to their own interests. Instead of trying to be the best player, they change the rules of the game.21 A company needs two proactive skills: (1) responsive anticipation to see the writing on the wall, as when IBM changed from a hardware producer to a service business, and (2) creative anticipation to devise innovative solu- tions. Note that responsive anticipation is performed before a given change, while reactive response happens after the change takes place. Accenture maintains that 10 consumer trends covering areas like e-commerce, social media, and a desire to express individuality will yield market opportunities worth more than $2 trillion between 2013 and 2016.22 Proactive companies will reap the most benefit from those shifts. Proactive companies create new offers to serve unmet—and maybe even unknown—consumer needs. In the late 1970s, Akio Morita, the Sony founder, was working on a pet project that would revolutionize the way people listened to music: a portable cassette player he called the Walkman. Engineers at the company insisted there was little demand for such a product, but Morita refused to part with his vision. By the 20th anniversary of the Walkman, Sony had sold more than 250 million in nearly 100 different models.23 Proactive companies may redesign relationships within an industry, like Toyota did with its relationship to its suppliers. Or they may educate and engage customers, as lululemon does with yoga and workouts.24 luLuLeMOn While attending yoga classes, Canadian entrepreneur Chip Wilson decided the cotton- polyester blends most fellow students wore were too uncomfortable. After designing a well-fitting, sweat-resistant black garment to sell, he also decided to open a yoga studio, and lululemon was born. The company has taken a grassroots Monroe advertises to remind consumers to make sure they do not forget to change their shocks. . 340 PART 4 | Building STRong BRAndS approach to growth that creates a strong emotional connection with its customers. Before it opens a store in a new city, it first identifies influential yoga instructors or other fitness teachers. In exchange for a year's worth of clothing, these yogi serve as "ambassadors," hosting students at lululemon-sponsored classes and product sales events. They also provide product design advice to the company. The cult-like devotion of lululemon's customers is evident in their willingness to pay $92 for a pair of workout pants that might cost only $60 to $70 from Nike or Under Armour. lululemon can sell as much as $1,800 worth of product per square feet in its approximately 100 stores, three times what established retailers Abercrombie & Fitch and J.Crew sell. Although the company has encountered some challenges with inventory manage- ment issues, production snafus, and negative publicity surrounding statements by its founder, it is still looking to expand beyond yoga-inspired athletic apparel and accessories into similar products in other sports such as running, swimming, and biking. Companies need to practice "uncertainty management." Proactive firms: • are ready to take risks and make mistakes, • have a vision of the future and of investing in it, • have the capabilities to innovate, • are flexible and non-bureaucratic, and • have many managers who think proactively. Companies that are too risk-averse won't be winners. DefeNsive marketiNg Even when it does not launch offensives, the market leader must not leave any major flanks exposed. The aim of defensive strategy is to reduce the probability of attack, divert attacks to less- threatened areas, and lessen their intensity. A leader would like to do anything it legally and ethically can to reduce competitors' ability to launch a new product, secure distribution, and gain consumer awareness, trial, and repeat.25 In any strategy, speed of response can make an important difference to profit. A dominant firm can use the six defense strategies summarized in Figure 12.2.26 Decisions about which strat- egy to adopt will depend in part on the company's resources and goals and its expectations about how competitors will react.27 • Position defense. Position defense means occupying the most desirable position in consumers' minds, making the brand almost impregnable. Procter & Gamble "owns" the key functional benefit in many product categories, with Tide detergent for cleaning, Crest toothpaste for cavity prevention, and Pampers diapers for dryness. • Flank defense. The market leader should erect outposts to protect a weak front or support a possible coun- terattack. Procter & Gamble brands such as Gain and Cheer laundry detergent and Luvs diapers have played strategic offensive and defensive roles in support of the Tide and Pampers brands, respectively. • Preemptive defense. A more aggressive maneuver is to attack first, perhaps with guerrilla action across the market—hitting one competitor here, another there—and keeping everyone off balance. Another is to achieve broad market envelopment that signals competitors not to attack.28 Bank of America's 16,220 ATMs and 5,858 retail branches nationwide provide steep competition to local and regional banks.29 Yet another preemptive defense is to introduce a stream of new products and announce them in advance, signaling competitors that they will need to fight to gain market share. If Microsoft announces plans for a new-product development, ATTACKER (1) Position DEFENDER (5) Mobile (3) (4) Preemptive Counteroffensive Contraction(6) (2) Flank | Fig. 12.2 | Six Types of Defense Strategies AddReSSing ComPeTiTion And dRiving gRowTh | chapter 12 341 smaller firms may concentrate their development efforts in other directions to avoid head-to-head competi- tion. Some high-tech firms have been accused of selling "vaporware"—announcing products that miss deliv- ery dates or are never introduced.30 • Counteroffensive defense. In a counteroffensive, the market leader can meet the attacker frontally and hit its flank or launch a pincer movement so the attacker will have to pull back to defend itself. Another form of counteroffensive is the exercise of economic or political clout. The leader may try to crush a competitor by subsidizing lower prices for a vulnerable product with revenue from its more profitable products, or it may prematurely announce a product upgrade to prevent customers from buying the competitor's product. Or the leader may lobby legislators to take political action to inhibit the competition or initiate appropriate legal actions. Tech leaders like Apple, Intel, and Microsoft have aggressively defended their brands in court. • Mobile defense. In mobile defense, the leader stretches its domain over new territories through market broadening and market diversification. Market broadening shifts the company's focus from the current prod- uct to the underlying generic need. Thus, "petroleum" companies such as BP sought to recast themselves as "energy" companies. This change required them to research the oil, coal, nuclear, hydroelectric, and chemical industries. Market diversification shifts the company's focus into unrelated industries. When U.S. tobacco companies such as Reynolds and Philip Morris acknowledged the growing curbs on cigarette smoking, instead of defending their market position or looking for cigarette substitutes, they moved quickly into new industries such as beer, liquor, soft drinks, and frozen foods. • Contraction defense. Sometimes large companies can no longer defend all their territory. In planned contrac- tion (also called strategic withdrawal), they give up weaker markets and reassign resources to stronger ones. Beginning in 2006, Sara Lee sold off products that accounted for a large percentage of its revenues—includ- ing its strong Hanes hosiery brand and global body care and European detergents businesses. In 2012, it split its remaining products into two companies. Hillshire Brands became the new name of the company, which focused on its core Hillshire Farms packaged meats business in North America, and D.E. Master Blenders 1753 was a spin-off company for its successful European coffee-and-tea business.31 P&G sold Pringles to Kellogg for almost $2.7 billion in an all-cash transaction when it decided it wanted to get out of the foods business to focus on its core household and consumer products.32 Another company that restruc- tured its business to improve competitiveness was Kraft.33 KrAft After years of acquisitions, CEO Irene Rosenfeld announced in 2011 that Kraft would split into two busi- nesses by the end of 2012: A fast-growing global snacks and candy business to include Oreo cookies and Cadbury candy and a slower-growing North American grocery business with long-terms stalwarts Maxwell House coffee, Planters peanuts, Kraft cheese, and Jell-O. The rationale was to improve performance and give investors distinctly different choices. The snacks and candy business was branded as Mondelēz International and was positioned as a high-growth company with many opportunities in emerging markets such as China and India. Coined by two employees, Mondelēz is a mash-up of the words for "world" and "delicious" in Latin and several other Romance languages. The grocery business retained the Kraft Foods name, and because it consisted of many category-dominant meat and cheese brands, it was seen as more of a cash cow for investors interested in consistent dividends. Mondelēz has ramped up for rapid expansion, while Kraft Foods has focused on cost-cutting and selective investment behind its power brands. InCreaSiNG Market Share No wonder competition has turned fierce in so many markets: One share point can be worth tens of millions of dollars. Gaining increased share does not automatically produce higher profits, however—especially for labor- intensive service companies that may not experience many economies of scale. Much depends on the company's strategy.34 Because the cost of buying higher market share through acquisition may far exceed its revenue value, a com- pany should consider four factors first: • The possibility of provoking antitrust action. Frustrated competitors are likely to cry "monopoly" and seek legal action if a dominant firm makes further inroads. Microsoft and Intel have had to fend off numerous law- suits and legal challenges around the world as a result of what some feel are inappropriate or illegal business practices and abuse of market power. 342 PART 4 | Building STRong BRAndS • Economic cost. Figure 12.3 shows that profitability might fall with market share gains after some level. In the illustration, the firm's optimal market share is 50 percent. The cost of gaining further market share might exceed the value if holdout customers dislike the company, are loyal to competitors, have unique needs, or prefer dealing with smaller firms. And the costs of legal work, public relations, and lobbying rise with market share. Pushing for higher share is less justifiable when there are unattractive market segments, buyers who want multiple sources of supply, high exit barriers, and few scale or experience economies. Some market leaders have even increased profitability by selectively decreasing market share in weaker areas.35 • The danger of pursuing the wrong marketing activities. Companies successfully gaining share typically outperform competitors in three areas: new-product activity, relative product quality, and marketing expen- ditures.36 Companies that attempt to increase market share by cutting prices more deeply than competitors typically don't achieve significant gains because rivals meet the price cuts or offer other values so buyers don't switch. • The effect of increased market share on actual and perceived quality. Too many customers can put a strain on the firm's resources, hurting product value and service delivery. Charlotte-based FairPoint Communications struggled to integrate the 1.3 million customers it gained in buying Verizon Communications's New England franchise. A slow conversion and significant service problems led to customer dissatisfaction, regulator's anger, and eventually short-term bankruptcy.37 Other Competitive Strategies Firms that occupy second, third, and lower ranks in an industry are often called runner-up or trailing firms. Some, such as PepsiCo, Ford, and Avis, are quite large in their own right. These firms can adopt one of two postures. They can attack the leader and other competitors in an aggressive bid for further market share as market challengers, or they can choose to not "rock the boat" as market followers. Market-ChallenGer StrateGIeS Many market challengers have gained ground or even overtaken the leader. Toyota today produces more cars than General Motors, Lowe's is putting pressure on Home Depot, and AMD has found some success chipping away at Intel's market share. Challengers set high aspirations, while market leaders can fall prey to running business as usual. Challengers can also tap into public perceptions that they are the underdog.38 Now let's examine the competitive attack strategies available to them.39 So ur ce : B lo om be rg v ia G et ty Im ag es Kraft split its company into two to better focus on fast-growing categories and markets, as well as to adequately support its solid core of heritage brands. Market Share (%) Optimal Market Share Pr ofi ta bi li ty 25 50 75 1000 | Fig. 12.3 | The Concept of Optimal Market Share AddReSSing ComPeTiTion And dRiving gRowTh | chapter 12 343 DefiNiNg the strategiC objeCtive AND oPPoNeNt(s) A market challenger must first define its strategic objective, which is usually to increase market share. It must then decide whom to attack: • It can attack the market leader. This is a high-risk but potentially high-payoff strategy and makes good sense if the leader is not serving the market well. Xerox wrested the copy market from 3M by developing a better copying process. Later, Canon grabbed a large chunk of Xerox's market by introducing desk copiers. This strategy often has the added benefit of distancing the firm from other challengers. • It can attack firms its own size that are not doing the job and are underfinanced. These firms have aging products, are charging excessive prices, or are not satisfying customers in other ways. • It can attack small local and regional firms. Several major banks grew to their present size by gobbling up smaller regional banks, or "guppies." • It can attack the status quo. A challenger might not attack a specific firm as much as an industry as a whole or a pervasive way of thinking that doesn't adequately address customer needs. Firms like Jet Blue, Ally Bank, and Netflix have succeeded by contrasting their services with those of competitors.40 ChoosiNg a geNeral attack strategy Given clear opponents and objectives, what attack options are available? As Figure 12.4 shows, we can distinguish five: frontal, flank, encirclement, bypass, and guerrilla attacks. • Frontal attack. In a pure frontal attack, the attacker matches its opponent's product, advertising, price, and distribution. The principle of force says the side with the greater resources will win. A modified frontal attack, such as cutting price, can work if the market leader doesn't retaliate and if the competitor convinces the mar- ket its product is equal to the leader's. Helene Curtis is a master at convincing the market that its hair-care brands—such as Suave and Finesse—are equal in quality but a better value than higher-priced brands. • Flank attack. A flanking strategy is another name for identifying shifts that cause gaps to develop in the market, then rushing to fill the gaps. Flanking is particularly attractive to a challenger with fewer resources and can be more likely to succeed than frontal attacks. Top communications companies such as Verizon, AT&T, and T-Mobile found themselves losing sales in the specialized but fast-growing prepaid smart-phone market when smaller carriers such as Boost Mobile, Virgin Mobile, and MetroPCS offered lower prices and unlimited service.41 Another flanking strategy is to serve uncovered market needs. Ariat's cowboy boots have challenged long-time market leaders Justin Boots and Tony Lama by making boots that are every bit as ranch-ready but ergonomically designed to feel as comfortable as a running shoe—a totally new benefit in the category.42 With a geographic attack, the challenger spots areas where the opponent is underperforming. • Encirclement attack. Encirclement attempts to capture a wide slice of territory by launching a grand offensive on several fronts. It makes sense when the challenger commands superior resources. Sun Microsystems licensed its Java software to hundreds of companies and thousands of software developers for all sorts of consumer devices. As consumer electronics began to go digital, Java started appearing in a wide range of gadgets. • Bypass attack. Bypassing the enemy altogether to attack easier markets instead offers three lines of approach: diversifying into unrelated products, diversifying into new geographical markets, and leapfrog- ging into new technologies. In the "cola wars," Pepsi used a bypass strategy against Coke by (1) rolling out Aquafina bottled water nationally in 1997 before Coke launched its Dasani brand; (2) purchasing orange juice giant Tropicana in 1998, when it owned almost twice the market share of Coca-Cola's Minute Maid; Strategic Objective Market Leader (3) Encirclement Attack (2) Flank Attack (5) Guerrilla Attacks (4) Bypass Attack (1) Frontal AttackMarket Challenger | Fig. 12.4 | General Attack Strategies 344 PART 4 | Building STRong BRAndS and (3) purchasing the Quaker Oats Company, owner of market leader Gatorade sports drink, for $14 billion in 2000.43 Coca-Cola has responded in turn with its own acquisitions. In technological leapfrog- ging, the challenger patiently researches and develops the next technology, shifting the battleground to its own territory where it has an advantage. Google used technological leapfrogging to overtake Yahoo! and become the market leader in search. • Guerrilla attack. Guerrilla attacks consist of small, intermittent attacks, conventional and unconven- tional, including selective price cuts, intense promotional blitzes, and occasional legal action, to harass the opponent and eventually secure permanent footholds. A guerrilla campaign can be expensive, though less so than a frontal, encirclement, or flank attack, but it typically must be backed by a stronger attack to beat the opponent. ChoosiNg a sPeCifiC attaCk strategy Any aspect of the marketing program can serve as the basis for attack, such as lower-priced or discounted products, new or improved products and services, a wider variety of offerings, and innovative distribution strategies. A challenger's success depends on combining several, more specific strategies to improve its position over time. Once successful, a challenger brand must retain a challenger mentality even if it becomes a market leader, highlighting the way it does things differently. Market-Follower StrateGIeS Theodore Levitt argues that a strategy of product imitation might be as profitable as a strategy of product innovation.44 In "innovative imitation," as he calls it, the innovator bears the expense of developing the new prod- uct, getting it into distribution, and informing and educating the market. The reward for all this work and risk is normally market leadership. However, another firm can come along and copy or improve on the new product. Although it may not overtake the leader, the follower can achieve high profits because it did not bear any of the innovation expense. Many companies prefer to follow rather than challenge the market leader. Patterns of "conscious parallelism" are common in capital-intensive, homogeneous-product industries such as steel, fertilizers, and chemicals. The opportunities for product differentiation and image differentiation are low, service quality is comparable, and price sensitivity runs high. The mood in these industries is against short-run grabs for market share because that only provokes retaliation. Instead, most firms present similar offers to buyers, usually by copying the leader. Market shares show high stability. That's not to say market followers lack strategies. They must know how to hold current customers and win a fair share of new ones. Each follower tries to bring distinctive advantages to its target market—location, services, financing—while defensively keeping its manufacturing costs low and its product quality and services high. It must also enter new markets as they open up. "Marketing Insight: The Costs and Benefits of Fast Fashion" discusses how a set of firms is changing the fashion industry, both for better and for worse. Followers must define a growth path, but one that doesn't invite competitive retaliation. We distinguish three broad strategies: 1. Cloner—The cloner emulates the leader's products, name, and packaging with slight variations. Technology firms are often accused of being cloners: Similar-sounding knockoffs copy mobile-messaging app maker WhatsApp's products, and Berlin-based Rocket Internet has copied competitors' business models and attempted to out-execute them.45 Ralston Foods, now owned by ConAgra, sells imitations of name-brand cereals in look-alike boxes as part of its "Value+Brands" platform. Its Apple Cinnamon Tasteeos (versus Cheerios), Cocoa Crunchies (versus Cocoa Puffs), and Corn Biscuits (versus Corn Chex) take aim at success- ful General Mills brands, but with much lower prices.46 2. Imitator—The imitator copies some things from the leader but differentiates on packaging, advertising, pricing, or location. The leader doesn't mind as long as the imitator doesn't attack aggressively. Fernandez Pujals grew up in Fort Lauderdale, Florida, and took Domino's pizza home delivery idea to Spain, where he borrowed $80,000 to open his first store in Madrid. His Telepizza chain now holds about 70 percent of the Spanish pizza delivery market and operates more than 1,200 stores in Europe and Latin America.47 3. Adapter—The adapter takes the leader's products and adapts or improves them. The adapter may choose to sell to different markets, but often it grows into a future challenger, as many Japanese firms have done after improving products developed elsewhere. Note that we can contrast these follower strategies from an illegal and unethical follower strategy: Counterfeiters duplicate the leader's product and packages and sell them on the black market or through dis- reputable dealers. High-tech firms like Apple and luxury brands like Rolex have been plagued by the counterfeiter AddReSSing ComPeTiTion And dRiving gRowTh | chapter 12 345 The Costs and Benefits of Fast Fashion In the fashion industry, styles and tastes can change quickly, and some savvy businesses and retailers are developing business models to allow them to quickly capitalize. Notable among them are Sweden's Hennes & Mauritz, or H&M, and Spain's Inditext with its Zara brand. These firms can take a new garment or accessory from design to store in a mere two weeks. Their success is forcing established luxury brands like Burberry, Chanel, and Saint Tropez to speed up and increase the frequency of their new product launches and some collections. By sourcing more than half its products from Spain, Portugal, and Morocco, Inditex pays more in production, but thanks to its tightly inte- grated supply chain, the company can quickly stock and supply what is selling and avoid having to discount what is not. Because there is al- most always something new at appealing price points, shoppers always have a reason to stop by and check out what has just arrived. H&M has adopted a similar fast-fashion model that allows it to closely follow and respond to what is selling in the marketplace. Both firms generate most of their sales in Europe—four-fifths for H&M and two-thirds for Zara—so they are furiously moving into China, Russia, and elsewhere and opening up hundreds of new stores. But this rapid growth and continual replenishment has both an environmental and social cost that fast-fashion companies are trying to address. The social cost came to light when a tragic 2012 fire in a subcon- tracted Bangladesh garment factory killed 111 workers. Competition in the $18 billion fashion industry is fierce, and with a focus on lean production costs, safety concerns took a backseat. Prodded by labor rights activists, Western firms finally signed a building and fire safety agreement that provided greater regulation to improve worker safety. Another negative by-product of the fast-fashion business model is the environmental cost of making and disposing of clothing with a lim- ited shelf life. To deflect some of the criticism, H&M adopted a series of "Recycle, Resell, or Reuse" programs and practices. Products were made using fewer, recycled materials, and customers were encouraged to trade in old clothes for vouchers for new ones. The company also required all contract suppliers to sign a code of conduct to ensure good working conditions. Sources: William Mauldin and Suzanne Kapner, "Wal-Mart and Other U.S. Retailers Commit to Factory Safety in Bangladesh," Wall Street Journal, July 10, 2013; Katarina Gustafsson, "H&M's New Love for Old Clothes," Bloomberg Businessweek, July 1, 2013; Kyle Stock, "H&M Has Been Slower than Its Fast- Fashion Rival in Escaping Europe," Bloomberg Businessweek, June 13, 2013; Calum Macleod, "H&M, Zara to Sign Bangladesh Factory Safety Accord," USA Today, May 13, 2013; Oliver Balch, "H&M: Can Fast Fashion and Sustainability Ever Really Mix?," The Guardian. May 3, 2013; Renee Dudley, Arun Devanth, and Matt Townsend, "The Hidden Cost of Fast Fashion: Worker Safety," Bloomberg Businessweek, February 7, 2013; Lucy Siegle, "Is H&M the New Home of Ethical Fashion?," The Guardian, April 7, 2012; "Fashion Forward," The Economist, March 24, 2012; Gerard Cachon and Robert Swinney, "The Value of Fast Fashion: Quick Response, Enhanced Design, and Strategic Consumer Behavior," Management Science 57 (April 2011); Andrew Roberts, "H&M, Zara Fast Fashion Pressures Luxury to Speed Up," www.bloomberg.com, September 30, 2010. marketing insight Companies who have adopted fast fashion practices emphasize low cost manufacturing with quick replenishment but must ensure that working conditions and safety are not sacrificed in the process. So ur ce : A SS O C IA T E D P R E SS problem for years, especially in Asia. Pharmaceutical counterfeits have become an enormous and potentially lethal $75 billion business. Unregulated, drug fakes have been found to contain traces of chalk, brick dust, paint, and even pesticides.48 What does a follower earn? Normally, less than the leader. A study of food-processing companies showed the largest averaging a 16 percent return on investment, the number-two firm, 6 percent, the number-three 346 PART 4 | Building STRong BRAndS firm, –1 percent, and the number-four firm, –6 percent. No wonder Jack Welch, former CEO of GE, told his business units that each must reach the number-one or -two position in its market or else! Followership is often not a rewarding path. Some follower firms have found success, but in another industry. Les Wexner, who runs Limited Brands and its Victoria's Secret lingerie retailer, fully embraces imitation. One month a year, he travels the world looking for ideas he can borrow from other companies ranging from airlines to consumer goods makers.49 Popchips has developed a $100 million business in part by expressly copying the successful marketing formula for vitamin- water (described in Chapter 10). As vitaminwater did, Popchips started with a novel and appealing product, converting a Los Angeles rice-cake plant to produce a new potato chip. Also like vitaminwa- ter, Popchips then used an aggressive sampling strategy to create consumer interest and secure distribution in top retailers such as Safeway and Whole Foods. To generate buzz and broaden appeal, Popchips brought in celebrities Ashton Kutcher and Katy Perry as minority investors and marketing spokespeople.50 Market-nICher StrateGIeS An alternative to being a follower in a large market is to be a leader in a small market, or niche, as we introduced in Chapter 8. Smaller firms normally avoid competing with larger firms by targeting small markets of little or no interest to the larger firms. Over time, those markets can sometimes end up being sizable in their own right, as Huy Fong Foods has found.51Popchips adopted an introductory marketing program similar to vitaminwater using celebrities like Katy Perry and much product sampling with consumers. Sriracha hot chili sauce has grown its sales organically with little marketing support. So ur ce : © J oh n C ro w e/ A la m y SrirAchA hOt chiLi SAUce David Tran started Huy Fong Foods in Los Angeles's Chinatown in 1980, naming the company after the Taiwanese freighter that brought him to the United States as a ref- ugee from Vietnam. Based in part on a condiment made in Si Racha, Thailand, Tan's Sriracha hot chili sauce is known as the "rooster sauce" for the distinctive rooster (Tan's astrological sign) on its green-capped squeeze bottle. A unique combination of locally sourced jalapeño peppers, vinegar, sugar, salt, and garlic created a taste that his packaging suppliers thought would be too spicy. Tran refused to change the recipe, saying, "Hot sauce must be hot. If you don't like it hot, use less. We don't make mayonnaise here." Fortunately, many consumers agreed. Huy Fong's Sriracha sauce can be bought at Walmart and enjoyed in dishes at Applebee's restaurants and in street foods in major cities. The product tastes so good that NASA has supplied it to its astronauts in space to help stave off dulled taste buds. It has never been advertised, has no Facebook page and no Twitter account, and at one point had not updated its Web site in years. Because of Sriracha's popularity, however, Huy Fong has become one of the fastest-growing U.S. food companies. Success has attracted imitators, but the firm's revenues continue to grow by at least 20 percent a year. Firms with low shares of the total market can become highly profitable through smart niching. They know their target customers so well they can meet their needs better than other firms by offering high value, but they can also charge a premium price, achieve lower manufacturing costs, and shape a strong corporate culture and vision.52 The nicher achieves high margin, whereas the mass marketer achieves high volume. Paul Reed Smith founded PRS Guitars to compete with big rivals Fender and Gibson and supply "the Stradivarius of guitars." PRS instruments are carefully constructed of selected mahogany and figured maple, kiln-dried and sanded five times, followed by eight very thin coats of finish. They cost from $3,000 to $60,000, but endorsements from top musicians like Carlos Santana and distribution through well-respected retailers like Rudy's Music Shop in Manhattan have helped the brand establish a foothold.53 AddReSSing ComPeTiTion And dRiving gRowTh | chapter 12 347 Nichers have three tasks: creating niches, expanding niches, and protecting niches. The risk is that the niche might dry up or be attacked. The company is then stuck with highly specialized resources that may not have high- value alternative uses. Zippo has successfully addressed the problem of a fast-shrinking niche market.54 ZiPPO With smoking on a steady decline, Pennsylvania-based Zippo Manufacturing found the market for its iconic brass and chrome "windproof" cigarette lighters shrinking from 18 million units sold in 1998 to 12 million in 2011. With the writing on the wall, the company decided to broaden its focus to selling "flame," warmth, and much more, reducing its reliance on tobacco-related products to 50 percent of revenue by 2010. Although an earlier attempt to diversify into tape measures, key holders, and belt buckles in the 1960s and 1970s had diminished in the 1990s and finally discontinued in 2007, Zippo came close to meeting its new goal. It introduced a long, slender multipurpose lighter for candles, grills, and fire- places; launched an Outdoors Line including hand warmers and fire start- ers sold through Dick's Sporting Goods, REI, and True Value; and acquired W.R. Case & Sons Cutlery, a knife maker. Zippo has even launched a cloth- ing line and men's and women's fragrances as a way to become more of a lifestyle brand. The company still sells its fair share of lighters by promoting new designs as well as perennial favorites like lighters with Elvis Presley's image and the Playboy logo. It now gets 60 percent of its sales outside the United States, with China the biggest foreign market at 10 percent of sales. Because niches can weaken, the firm must continually create new ones. "Marketing Memo: Niche Specialist Roles" outlines some options. The firm should "stick to its niching," but not necessarily to its niche. That is why multiple niching can be preferable to single niching. With strength in two or more niches, the company increases its chances for survival. Firms entering a market should initially aim at a niche rather than the whole market. The cell phone industry has experienced phenomenal growth but is now facing fierce competition as the number of new potential users dwindles. PRS Guitars has found a niche with its carefully- crafted, high-end guitars coveted by top musicians. So ur ce : C ou rt es y Pa ul R ee d Sm ith G ui ta rs a nd M ar k Q ui gl ey Zippo has expanded its product offerings beyond lighters to sell "flame" and more. So ur ce : Z ip po M an uf ac tu rin g C om pa ny 348 PART 4 | Building STRong BRAndS Product Life-Cycle Marketing Strategies A company's positioning and differentiation strategy must change as its product, market, and competitors change over the product life cycle (PLC). To say a product has a life cycle is to assert four things: 1. Products have a limited life. 2. Product sales pass through distinct stages, each posing different challenges, opportunities, and problems to the seller. 3. Profits rise and fall at different stages of the product life cycle. 4. Products require different marketing, financial, manufacturing, purchasing, and human resource strategies in each life-cycle stage. produCt lIFe CYCleS Most product life cycles are portrayed as bell-shaped curves, typically divided into four stages: introduction, growth, maturity, and decline55 (see Figure 12.5). 1. Introduction—A period of slow sales growth as the product is introduced in the market. Profits are nonexis- tent because of the heavy expenses of product introduction. 2. Growth—A period of rapid market acceptance and substantial profit improvement. 3. Maturity—A slowdown in sales growth because the product has achieved acceptance by most potential buyers. Profits stabilize or decline because of increased competition. 4. Decline—Sales show a downward drift and profits erode. We can use the PLC concept to analyze a product category (liquor), a product form (white liquor), a product (vodka), or a brand (Absolut). Not all products exhibit a bell-shaped PLC.56 Three common alternate patterns are shown in Figure 12.6. The key idea in successful nichemanship is specialization. Here are some possible niche roles: • End-user specialist. The firm specializes in one type of end-use customer. For example, a value-added reseller (VAR) customizes computer hardware and software for specific customer segments and earns a price premium in the process. • Vertical-level specialist. The firm specializes at some vertical level of the production-distribution value chain. A copper firm may concentrate on producing raw copper, copper components, or finished copper products. • Customer-size specialist. The firm concentrates on either small, medium-sized, or large customers. Many nichers serve small customers neglected by the majors. • Specific-customer specialist. The firm limits its selling to one or a few customers. Many firms sell their entire output to a single company, such as Walmart or General Motors. • Geographic specialist. The firm sells only in a certain locality, region, or area of the world. • Product or product line specialist. The firm carries or produces only one product line or product. A manufacturer may produce only lenses for micro- scopes. A retailer may carry only ties. • Product-feature specialist. The firm specializes in producing a certain type of product or product feature. • Job-shop specialist. The firm customizes its products for individual customers. • Quality-price specialist. The firm operates at the low- or high-quality ends of the market. McIntosh Laboratory only makes high-performance luxury audio systems—its hand-built audio products appeal to audiophiles everywhere. • Service specialist. The firm offers one or more services not available from other firms. A bank might take loan requests over the phone and hand-deliver the money to the customer. • Channel specialist. The firm specializes in serving only one channel of distribution. For example, a soft drink company makes a very large-sized serving available only at gas stations. Niche Specialist Rolesmarketing memo AddReSSing ComPeTiTion And dRiving gRowTh | chapter 12 349 Figure 12.6(a) shows a growth-slump-maturity pattern, characteristic of small kitchen appliances like bread makers and toaster ovens. Sales grow rapidly when the product is first introduced and then fall to a "petrified" level sustained by late adopters buying the product for the first time and early adopters replacing it. The cycle-recycle pattern in Figure 12.6 (b) often describes the sales of new drugs. The pharmaceutical company aggressively promotes its new drug, producing the first cycle. Later, sales start declining, and another promotion push produces a second cycle (usually of smaller magnitude and duration).57 Another common pattern is the scalloped PLC in Figure 12.6 (c). Here, sales pass through a succession of life cycles based on the discovery of new product characteristics, uses, or users. Sales of nylon showed a classic scal- loped pattern because of the many new uses—parachutes, hosiery, shirts, carpeting, boat sails, automobile tires— discovered over time.58 StYle, FaShIon, and Fad lIFe CYCleS We need to distinguish three special categories of product life cycles: styles, fashions, and fads (Figure 12.7). A style is a basic and distinctive mode of expression appearing in a field of human endeavor. Homes can be colonial, ranch, or Cape Cod; clothing is formal, business casual, or sporty; art is realistic, surrealistic, or abstract. A style can last for generations and go in and out of vogue. A fashion is a currently accepted or popular style in a given field. Fashions pass through four stages: distinctiveness, emulation, mass fashion, and decline.59 The length of a fashion cycle is hard to predict. One view is that fashions end because they represent a compro- mise, and consumers start looking for the missing attributes.60 For example, as automobiles become smaller, they become less comfortable, and then a growing number of buyers start wanting larger cars. Another explanation is that too many consumers adopt the fashion, discouraging others. Still another is that the length of a fashion cycle depends on whether the fashion meets a genuine need, is consistent with other trends, satisfies societal norms and values, and keeps within technological limits as it develops.61 Fads are fashions that come quickly into public view, are adopted with great zeal, peak early, and decline very fast. Their acceptance cycle is short, and they tend to attract only a limited following searching for excitement or wanting Profit Sales Sa le s an d Pr ofi ts ($) Time Introduction Growth Maturity Decline (a) Growth-Slump-Maturity Pattern (b) Cycle-Recycle Pattern (c) Scalloped Pattern Sa le s Vo lu m e Sa le s Vo lu m e Sa le s Vo lu m e Time TimeTime Primary cycle Recycle | Fig. 12.6 | Common Product Life-Cycle Patterns | Fig. 12.5 | Sales and Profit Life Cycles 350 PART 4 | Building STRong BRAndS to distinguish themselves from others. Heelys wheeled shoes were the rage with kids—for a while. Dwindling sales resulted in a sale to a private equity company for a fraction of what the company was worth at its IPO.62 Fads decline because they don't normally satisfy a strong need. The marketing winners are those who recognize fads early and leverage them into products with staying power, as Crocs has tried to do.63 crOcS Crocs' signature plastic clogs or "boat shoes"—colorful, comfortable, perfect for summer— succeeded soon after their introduction in Boulder, CO, in 2002. The company's 2006 IPO was the largest ever in U.S. footwear, raising $208 million. Its stock peaked a year later when Crocs' sales reached $847 million. But the recession and consumer fatigue with the brand were a double whammy that led to a steep drop in sales and drove the stock price down to a mere $1 in what the CFO now calls a "near-death experience." By 2011, however, Crocs had rebounded with more than $1 billion in revenues and growth goals of 15 percent to 20 percent. What happened? The company had diversified into more than 300 styles of stylish, comfortable boots, loafers, sneakers, and other shoes that helped to reduce its reliance on clogs to less than 50 percent of sales. It also adopted a multichannel distribution approach to sell wholesale through retail- ers like Kohl's and Dick's Sporting Goods (60 percent of business), as well as directly online (10 percent) and through more than 500 of its own retail stores (30 percent). International sales now make up more than half its sales, including in emerg- ing marketing and the growing middle-class markets in Asia and Latin America. Time Time Time Style Fashion Fad Sa le s Sa le s Sa le s | Fig. 12.7 | Style, Fashion, and Fad Life Cycles With sales fading fast, Crocs turned around its fortunes by expanding its product line, adopting a multichannel distribution approach, and tapping into global markets. So ur ce : © P er A nd er se n/ A la m y AddReSSing ComPeTiTion And dRiving gRowTh | chapter 12 351 MarketInG StrateGIeS: IntroduCtIon StaGe and the pIoneer advantaGe Because it takes time to roll out a new product, work out technical problems, fill dealer pipelines, and gain consumer acceptance, sales growth tends to be slow in the introduction stage. Profits are negative or low, and pro- motional expenditures are at their highest ratio to sales because of the need to (1) inform potential consumers, (2) induce product trial, and (3) secure distribution in retail outlets.64 Prices tend to be higher because costs are high, and firms focus on buyers who are the most ready to buy. Consider the challenges Zipcar faced in trying to establish itself in the hourly car rental market.65 ZiPcAr Car sharing started in Europe as a means to serve those who frequently used public transportation but still needed a car a few times a month. In the United States, the appeal of Zipcar, the market leader and pioneer in car shar- ing, has been both environmental and economic. With a $50 membership fee and rates that total less than $100 a day— including gas, insurance, and parking—a typical family could save $3,000 to $4,000 a year by substituting Zipcar use for car ownership. The firm estimated that every car it added kept up to 20 private cars off the road. Targeting major cities and college campuses, offering a wide variety of vehicles, and facing little competition, it grew about 30 percent annually for a number of years. Rental leader Hertz decided to enter the hourly car rental business in 2012, however, equipping its entire 375,000-vehicle U.S. fleet with devices that let customers use a computer or smart phone to reserve and unlock a rental car. Unlike Zipcar, Hertz offers one-way rentals and charges no membership or annual fees. With Enterprise also enter- ing the market at home, Zipcar set its sights overseas, concentrating initially on the United Kingdom and Spain. Needing resources to capitalize on global opportunities, in January 2013 it agreed to be acquired by Avis Budget, the number-two rental car company. Companies that plan to introduce a new product must decide when to do so. To be first can be reward- ing, but risky and expensive. To come in later makes sense if the firm can bring superior technology, quality, or brand strength to create a market advantage. We next consider some of the pros and cons of being a pioneer in a new market. PioNeeriNg aDvaNtages Studies show that a market pioneer can gain a great advantage.66 Campbell, Coca-Cola, Hallmark, and Amazon.com developed sustained market dominance. Nineteen of 25 market leaders in 1923 were still the market leaders 60 years later.67 In a sample of industrial-goods businesses, 66 percent of pioneers survived at least 10 years versus 48 percent of early followers.68 Zipcar pioneered the hourly car rental market in the U.S. but encoun- tered stiff competition from established car rental companies. So ur ce : © Z U M A P re ss , I nc ./ A la m y 352 PART 4 | Building STRong BRAndS What are the sources of the pioneer's advantage? "Marketing Insight: Understanding Double Jeopardy" describes one way market leaders can benefit from loyalty due to their size. Early users will recall the pioneer's brand name if the product satisfies them. The pioneer's brand also establishes the attributes the product class should possess.69 It normally aims at the middle of the market and so captures more users. Customer inertia also plays a role, and there are producer advantages: economies of scale, technological leadership, patents, ownership of scarce assets, and the ability to erect other barriers to entry. Pioneers can spend marketing dollars more effectively and enjoy higher rates of repeat purchases. An alert pioneer can lead indefinitely. PioNeeriNg DrawbaCks But the pioneering advantage is not inevitable.70 Bowmar (hand calculators), Apple's Newton (personal digital assistant), Netscape (Web browser), Reynolds (ballpoint pens), and Osborne (portable computers) were market pioneers overtaken by later entrants. First movers also have to watch out for the "second-mover advantage." Steven Schnaars studied 28 industries in which imitators surpassed the innovators.71 He found several weak- nesses among the failing pioneers, including new products that were too crude, were improperly positioned, or appeared before there was strong demand; product-development costs that exhausted the innovator's resources; a lack of resources to compete against entering larger firms; and managerial incompetence or unhealthy compla- cency. Successful imitators thrived by offering lower prices, continuously improving the product, or using brute market power to overtake the pioneer. Peter Golder and Gerald Tellis raise further doubts about the pioneer advantage.72 They distinguish between an inventor, first to develop patents in a new-product category, a product pioneer, first to develop a working model, and a market pioneer, first to sell in the new-product category. Including nonsurviving pioneers in their sample, they conclude that although pioneers may still have an advantage, more market pioneers fail than has been reported, and more early market leaders (though not pioneers) succeed. Later entrants overtaking market leaders through the years included Matsushita over Sony in VCRs, GE over EMI in CAT scan equipment, and Google over Yahoo! in search. Follow-up research by Golder and his colleagues of 625 brand leaders in 125 categories from 1921 to 2010 provides further insight:73 • Leading brands are more likely to persist during economic slowdowns and when inflation is high and less likely to persist during economic expansion and when inflation is low. • Half the leading brands in the sample lost their leadership after being a leader over periods ranging from 12 to 39 years. Understanding Double Jeopardy Double jeopardy is an empirical generalization that has roots in many areas but was popularized in marketing by the British academic Andrew Ehrenberg. It boils down to the fact that a small-share brand is penal- ized twice—it has fewer buyers than a large-share brand, and they buy less frequently. As a consequence, most of a brand's market share is explained by its market penetration and the size of its customer base, rather than by customers' repeat purchases. Implicit in the principle of double jeopardy is the assumption that brands are substitutable and have target segments in common. It is, in fact, most often observed with weakly differentiated brands targeting the same group of people. Exceptions are highly differentiated niche brands that thrive on small shares and high loyalty and seasonal brands that offer unique value and tally cluster purchases in short periods of time. One implication drawn by double jeopardy proponents is that marketers seeking growth should focus on increasing the size of the customer base rather than on deepening the loyalty of existing custom- ers. They see PR efforts, distribution plans, and any means to increase brand exposure, familiarity, and availability as more important than persuasive advertising to target switchers or CRM efforts to reward loyal customers. Critics of double jeopardy question how inevitable it is and see other implications for marketers. For example, they view new or established brands with a new positioning or message as differentiated enough to avoid double jeopardy's predicted results. Sources: John Scriven and Gerald Goodhardt, "The Ehrenberg Legacy," Journal of Advertising Research, June 2012, pp. 198–202; Byron Sharp, How Brands Grow: What Marketers Don't Know (Melbourne, Australia: Oxford University Press, 2010); Nigel Hollis, "The Jeopardy in Double Jeopardy," www.millwardbrown.com, September 2, 2009; Andrew Ehrenberg and Gerald Goodhardt, "Double Jeopardy Revisited, Again," Marketing Research, 2002. See also Andrew Ehrenberg: A Tribute (1926–2010), Special Section, Journal of Advertising Research 52 (June 2012). marketing insight AddReSSing ComPeTiTion And dRiving gRowTh | chapter 12 353 • The rate of brand leadership persistence has been substantially lower in recent times than in earlier eras (e.g., more than 30 years ago). • Once brand leadership has been lost, it is rarely regained. • Categories with above-average brand leadership persistence are food and household supplies; those with below-average rates are durables and clothing. gaiNiNg a PioNeeriNg aDvaNtage Tellis and Golder also identified five factors underpinning long-term market leadership: vision of a mass market, persistence, relentless innovation, financial commitment, and asset leverage.74 Other research has highlighted the role of genuine product innovation.75 When a pioneer starts a market with a really new product, like the Segway Human Transporter, surviving can be very challenging. For incremental innovators, like MP3 players with video capabilities, survival rates are much higher. Speeding up innovation is essential in an age of shortening product life cycles. Being early has been shown to pay. One study found that products debuting six months late but on budget earned an average of 33 percent less profit in their first five years; products that came out on time but 50 percent over budget sacrificed only 4 percent of potential profits.76 Companies should not try to move too fast; they must carefully design and execute their product-launch marketing. General Motors rushed out its newly designed Malibu to get a leg up over its Honda, Nissan, and Ford midsize competitors. When all the different versions were not ready for production at launch, the brand's momentum stalled.77 One study found Internet companies that realized benefits from moving fast (1) were first movers in large markets, (2) erected barriers of entry against competitors, and (3) directly controlled critical elements necessary for starting a company.78 The pioneer should visualize the product markets it could enter, knowing it cannot enter all of them at once. Suppose market-segmentation analysis reveals the segments shown in Figure 12.8. The pioneer should analyze the profit potential of each singly and of all together and decide on a market expansion path. Thus, the pioneer in Figure 12.8 plans first to enter product market P1M1, then move into a second market (P1M2), then surprise the competition by developing a second product for the second market (P2M2), then take the second product back into the first market (P2M1), then launch a third product for the first market (P3M1). If this game plan works, the pioneer firm will own a good part of the first two segments, serving each with two or three products. MarketInG StrateGIeS: Growth StaGe The growth stage is marked by a rapid climb in sales. Early adopters like the product, and additional consumers start buying it. New competitors enter, attracted by the opportunities. They introduce new product features and expand distribution. Prices stabilize or fall slightly, depending on how fast demand increases. Companies maintain marketing expenditures or raise them slightly to meet competition and continue to educate the market. Sales rise much faster than marketing expenditures, causing a welcome decline in the marketing-to-sales ratio. Profits increase as marketing costs are spread over a larger volume, and unit manufactur- ing costs fall faster than price declines, owing to the producer-learning effect. Firms must watch for a change to a decelerating rate of growth in order to prepare new strategies. To sustain rapid market share growth now, the firm: • improves product quality and adds new features and improved styling. • adds new models and flanker products (of different sizes, flavors, and so forth) to protect the main product. • enters new market segments. • increases its distribution coverage and enters new distribution channels. • shifts from awareness and trial communications to preference and loyalty communications. • lowers prices to attract the next layer of price-sensitive buyers. By spending money on product improvement, promotion, and distribution, the firm can capture a dominant position. It trades off maximum current profit for high market share and the hope of even greater profits in the next stage. Sustaining a competitive advantage in the face of many possible marketplace changes can be challenging but not impossible, as evidenced by some of the long-time market leaders noted above. Finding new ways to consistently M1 M2 M3 P3 P2 P1 2 3 4 5 1 | Fig. 12.8 | Long-Range Product Market Expansion Strategy (Pi = product i; Mj = market j) 354 PART 4 | Building STRong BRAndS improve customer satisfaction can go a long way. Brambles, a leading Australian logistics supplier, designed plastic bins for its grocery customers that could be filled in farmers' fields and placed directly on store shelves, saving the grocers significant labor costs in the process.79 MarketInG StrateGIeS: MaturItY StaGe At some point, the rate of sales growth will slow, and the product will enter a stage of relative maturity. Most products are in this stage of the life cycle, which normally lasts longer than the preceding ones. The maturity stage divides into three phases: growth, stable, and decaying maturity. In the first, sales growth starts to slow. There are no new distribution channels to fill. New competitive forces emerge. In the second phase, sales per capita flatten because of market saturation. Most potential consumers have tried the product, and future sales depend on population growth and replacement demand. In the third phase, decaying maturity, the absolute level of sales starts to decline, and customers begin switching to other products. This third phase poses the most challenges. The sales slowdown creates overcapacity in the industry, which intensifies competition. Weaker competitors withdraw. A few giants dominate—perhaps a quality leader, a service leader, and a cost leader—and profit mainly through high volume and lower costs. Surrounding them is a multitude of market nichers, including market specialists, product specialists, and customizing firms. The question is whether to struggle to become one of the big three and achieve profits through high volume and low cost or to pursue a niching strategy and profit through low volume and high margins. Sometimes the market will divide into low- and high-end segments, and market shares of firms in the middle will steadily erode. Here's how Swedish appliance manufacturer Electrolux has coped with this situation.80 eLectrOLUX AB In 2002, Swedish manufacturer Electrolux faced a rapidly polarizing appliance market. Low-cost Asian companies such as Haier, LG, and Samsung were applying downward price pressure, while premium competitors like Bosch, Sub-Zero, and Viking were growing at the expense of the middle-of-the-road brands. Electrolux's CEO at the time, Hans Stråberg, decided to escape the middle by rethinking customers' wants and needs. He segmented the market according to the lifestyle and purchasing patterns of about 20 different types of consumers to help target and position the company's broad portfolio of brands, which includes Electrolux as well as Frigidaire refrigerators, AEG ovens, and Zanussi coffee machines. Electrolux now successfully markets its steam ovens to health-oriented con- sumers, for example, and its compact dishwashers, originally for smaller kitchens, to a broader consumer segment that washes dishes more often. To companies stuck in the middle of a mature market, Stråberg offered this advice: "Start with consumers and understand what their latent needs are and what problems they experience…then put the puzzle together yourself to discover what people really want to have. Henry Ford is supposed to have said, 'If I had asked people what they really wanted, I would have made faster horses' or something like that. You need to figure out what people really want, although they can't express it." Under new CEO Keith McLoughlin, Electrolux is concentrating on the top end of the appli- ance market, selling professional-grade ranges to the ultra-luxury consumer segment. With distribution and local market presence in more than 150 countries, the company is well positioned for global growth, especially in emerging markets. Some companies abandon weaker products to concentrate on new and more profitable ones. Yet they may be ignoring the high potential many mature markets and old products still have. Industries widely thought to be mature—autos, motorcycles, television, watches, cameras—were proved otherwise by Japanese firms, who found ways to offer customers new value. Three ways to change the course for a brand are market, product, and market- ing program modifications. market moDIfIcatIoN A company might try to expand the market for its mature brand by working with the two factors that make up sales volume, number of brand users and usage rate per customer, as in Table 12.1, but competitors may match this strategy. ProDuCt moDifiCatioN Managers also try to stimulate sales by improving quality, features, or style. Quality improvement increases functional performance by launching a "new and improved" product. Feature AddReSSing ComPeTiTion And dRiving gRowTh | chapter 12 355 improvement adds size, weight, materials, supplements, and accessories that expand the product's performance, versatility, safety, or convenience. Style improvement increases the product's esthetic appeal. Any of these improvements can attract consumer attention. In the highly competitive digital photography space, Shutterfly has grown revenue to $600 million in annual sales by converting consumers' digital images to tan- gible items: photo books, calendars, greeting cards, wedding invitations, wall decals, and more.81 The paper industry is also coping with the challenges of the digital era. As long as some consumers prefer to read, store, or share hard-copy documents, the industry recognizes it must also provide an environmentally sound solution as possible. Suppliers have worked to develop a more environmentally friendly supply chain from seed- lings and reforestation, adopt greener pulp and paper production, recycle, and reduce their carbon footprint.82 Such efforts are crucial for success and even survival. Due to the rise of e-mail, online bill payments, and other digital developments, leading envelope maker National Envelope declared Chapter 11 bankruptcy twice from 2011 to 2013 as a result of dwindling sales, while leading postage meter supplier Pitney Bowes expanded its digital operations.83 marketiNg Program moDifiCatioN Finally, brand managers might also try to stimulate sales by modifying non-product elements—price, distribution, and communications in particular—as we will review in later chapters. They should assess the likely success of any changes in terms of their effects on new and existing customers. MarketInG StrateGIeS: deClIne StaGe Sales decline for a number of reasons, including technological advances, shifts in consumer tastes, and increased domestic and foreign competition. All can lead to overcapacity, increased price cutting, and profit erosion. The decline might be slow, as for sewing machines and newspapers, or rapid, as it was for 5.25 floppy disks and eight- track cartridges. Sales may plunge to zero or petrify at a low level. These structural changes are different from a short-term decline resulting from a marketing crisis of some sort. "Marketing Memo: Managing a Marketing Crisis" describes strategies for a brand in temporary trouble. As sales and profits decline, some firms withdraw. Those remaining may reduce the number of products they offer, exiting smaller segments and weaker trade channels, cutting marketing budgets, and reducing prices further. Unless strong reasons for retention exist, carrying a weak product is often very costly. Encyclopædia Britannica ceased production of its iconic bound sets of encyclopedias once consumers felt they could get adequate content elsewhere for much less or free. The company rebounded by focusing on the online educational market. Valuing table 12.1 Alternate Ways to Increase Sales Volume Expand the Number of Users Increase the Usage Rates among Users • Convert nonusers. The key to the growth of air freight service was the constant search for new users to whom air carriers could demonstrate the benefits of using air freight rather than ground transportation. • Enter new market segments. When Goodyear decided to sell its tires in Walmart, Sears, and Discount Tire, it immediately boosted its market share. • Attract competitors' customers. Marketers of Puffs facial tissues are always wooing Kleenex customers. • Have consumers use the product on more occasions. Serve Campbell's soup for a snack. Use Heinz vinegar to clean windows. • Have consumers use more of the product on each occasion. Drink a larger glass of orange juice. • Have consumers use the product in new ways. Use Tums antacid as a calcium supplement. 356 PART 4 | Building STRong BRAndS Marketing managers must assume a brand crisis will someday arise. Chick-fil-A, BP, Domino's, and Toyota have all experienced damaging and even potentially crippling brand crises. Bank of America, JPMorgan, AIG, and other financial services firms have been rocked by scandals that significantly eroded inves- tor trust. Repercussions include (1) lost sales, (2) reduced effectiveness of marketing activities, (3) increased sensitivity to rivals' marketing activities, and (4) reduced impact of the firm's marketing activities on competing brands. In general, the stronger the brand equity and corporate image—especially credibility and trustworthiness—the more likely the firm can weather the storm. Careful preparation and a well-managed crisis management program are also critical, however. As Johnson & Johnson's legendary and nearly flawless handling of the Tylenol product-tampering incident taught marketers everywhere, consumers must see the firm's response as both swift and sincere. They must feel an immediate sense that the company truly cares. Listening is not enough. The longer the firm takes to respond, the more likely consumers can form negative impressions from unfavorable media coverage or word of mouth. Perhaps worse, they may find they don't like the brand after all and permanently switch. Getting in front of a problem with PR, and perhaps even ads, can help avoid those problems. A classic example is Perrier—the one-time brand leader in the bottled water category. In 1994, Perrier was forced to halt production worldwide and recall all existing product when traces of benzene, a known carcinogen, were found in excessive quantities in its bottled water. Over the next weeks it offered several explanations, creating confusion and skepticism. Perhaps more damaging, the product was off shelves for more than three months. Despite an expensive relaunch featuring ads and promotions, the brand struggled to regain lost market share, and a full year later sales were less than half what they had been. With its key "purity" association tarnished, Perrier had no other compelling points-of-difference. Consumers and re- tailers had found satisfactory substitutes, and the brand never recovered. Eventually it was taken over by Nestlé SA. The more sincere the firm's response—ideally a public acknowledg- ment of the impact on consumers and willingness to take necessary steps—the less likely consumers will form negative attributions. When shards of glass were found in some jars of its baby food, Gerber tried to reassure the public there were no problems in its manufacturing plants but adamantly refused to withdraw products from stores. After market share slumped from 66 percent to 52 percent within a couple of months, one company official admitted, "Not pulling our baby food off the shelf gave the appearance that we aren't a caring company." If a problem exists, consumers need to know without a shadow of a doubt that the company has found the proper solution. One of the keys to Tylenol's recovery was J&J's introduction of triple tamper-proof packaging, successfully eliminating consumer worry that the product could ever be tampered with again. Sources: Norman Klein and Stephen A. Greyser, "The Perrier Recall: A Source of Trouble," Harvard Business School Case #9-590-104 and "The Perrier Relaunch," Harvard Business School Case #9-590-130; Harald Van Heerde, Kristiaan Helsen, and Marnik G. Dekimpe, "The Impact of a Product-Harm Crisis on Marketing Effectiveness," Marketing Science 26 (March–April 2007), pp. 230–45; Michelle L. Roehm and Alice M. 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Dekimpe, "Rising from the Ashes: How Brands and Categories Can Overcome Product-Harm Crises," Journal of Marketing 77 (March 2013), pp. 58–77. Managing a Marketing Crisismarketing memo So ur ce : © S Q U IB / A la m y By mishandling a brand crisis, Perrier lost market share which it never recovered. AddReSSing ComPeTiTion And dRiving gRowTh | chapter 12 357 the company's long-standing mission to bring expert knowledge to the general public, more than half of U.S. stu- dents and teachers have access to some Britannica content.84 elImInatINg weak ProDucts Besides being unprofitable, weak products consume a disproportionate amount of management's time, require frequent price and inventory adjustments, incur expensive setup for what are usually short production runs, draw advertising and sales force attention better used to make healthy products more profitable, and cast a negative shadow on company image. Maintaining them also delays the aggressive search for replacement products, creating a lopsided product mix long on yesterday's breadwinners and short on tomorrow's. Recognizing these drawbacks, General Motors decided to drop the floundering Oldsmobile and Pontiac lines.85 Unfortunately, most companies have not developed a policy for handling aging products. The first task is to establish a system for identifying them. Many companies appoint a product-review committee with representatives from marketing, R&D, manufacturing, and finance who, based on all available information, make a recommenda- tion for each product—leave it alone, modify its marketing strategy, or drop it.86 Some firms abandon declining markets earlier than others. Much depends on the height of exit barriers in the industry. The lower the barriers, the easier for firms to leave the industry, and the more tempting for the remaining firms to stay and attract the withdrawing firms' customers. Procter & Gamble stayed in the declining liquid-soap business and improved its profits as others withdrew. The appropriate strategy also depends on the industry's relative attractiveness and the company's competi- tive strength in it. A company in an unattractive industry that possesses competitive strength should consider shrinking selectively. A company in an attractive industry that has competitive strength should consider strengthening its investment. Companies that successfully restage or rejuvenate a mature product often do so by adding value to it. harvestiNg aND DivestiNg Strategies for harvesting and for divesting are quite different. Harvesting calls for gradually reducing a product or business's costs while trying to maintain sales. The first step is to cut R&D costs and plant and equipment investment. The company might also reduce product quality, sales force size, marginal services, and advertising expenditures, ideally without letting customers, competitors, and employees know what is happening. Harvesting is difficult to execute, yet many mature products warrant this strategy. It can substantially increase current cash flow.87 When a company decides to divest a product with strong distribution and residual goodwill, it can probably sell it to another firm. Some firms specialize in acquiring and revitalizing "orphan" or "ghost" brands that larger firms want to divest or that have encountered bankruptcy, such as Linens n' Things, Folgers and Brim coffee, Nuprin So ur ce : © J oh n G af fe n 2/ A la m y Despite its history with one-time popular models like the GTO, General Motors chose to cease production of the floundering Pontiac product line. 358 PART 4 | Building STRong BRAndS pain reliever, and Salon Selective shampoos.88 These firms attempt to capitalize on the residue of awareness in the market to develop a brand revitalization strategy. Reserve Brands bought Eagle Snacks in part because research showed 6 of 10 adults remembered the brand, leading Reserve's CEO to observe, "It would take $300 million to $500 million to recreate that brand awareness today."89 If the company can't find any buyers, it must decide whether to liquidate the brand quickly or slowly. It must also decide how much inventory and service to maintain for past customers. evIdenCe For the produCt lIfe-CyCle ConCept Table 12.2 summarizes the characteristics, marketing objectives, and marketing strategies of the four stages of the product life cycle. The PLC concept helps marketers interpret product and market dynamics, conduct planning and control, and do forecasting. Another study by Golder and Tellis of 30 product categories unearthed a number of interesting findings about the PLC:90 • New consumer durables show a distinct takeoff, after which sales increase by roughly 45 percent a year, but they also show a distinct slowdown, when sales decline by roughly 15 percent a year. • Slowdown occurs at 34 percent penetration on average, well before most households own a new product. table 12.2 Summary of Product Life-Cycle Characteristics, Objectives, and Strategies Introduction Growth Maturity Decline Characteristics Sales Low sales Rapidly rising sales Peak sales Declining sales Costs High cost per customer Average cost per customer Low cost per customer Low cost per customer Profits Negative Rising profits High profits Declining profits Customers Innovators Early adopters Middle majority Laggards Competitors Few Growing number Stable number beginning to decline Declining number Marketing Objectives Create product awareness and trial Maximize market share Maximize profit while defending market share Reduce expenditure and milk the brand Strategies Product Offer a basic product Offer product extensions, service, warranty Diversify brands and items models Phase out weak products Price Charge cost-plus Price to penetrate market Price to match or best competitors' Cut price Distribution Build selective distribution Build intensive distribution Build more intensive distribution Go selective: phase out unprofitable outlets Communications Build product awareness and trial among early adopters and dealers Build awareness and interest in the mass market Stress brand differences and benefits and encourage brand switching Reduce to minimal level needed to retain hard-core loyals Sources: Chester R. Wasson, Dynamic Competitive Strategy and Product Life Cycles (Austin, TX: Austin Press, 1978); John A. Weber, "Planning Corporate Growth with Inverted Product Life Cycles," Long Range Planning (October 1976), pp. 12–29; Peter Doyle, "The Realities of the Product Life Cycle," Quarterly Review of Marketing (Summer 1976). AddReSSing ComPeTiTion And dRiving gRowTh | chapter 12 359 • The growth stage lasts a little more than eight years and does not seem to shorten over time. • Informational cascades exist, meaning people are more likely to adopt over time if others already have, instead of making careful product evaluations. One implication is that product categories with large sales increases at takeoff tend to have larger sales declines at slowdown. CrItIque oF the produCt lIFe-CYCle ConCept PLC theory has its share of critics, who claim life-cycle patterns are too variable in shape and duration to be gen- eralized and that marketers can seldom tell what stage their product is in. A product may appear mature when it has actually reached a plateau prior to another upsurge. Critics also charge that, rather than an inevitable course, the PLC pattern is the self-fulfilling result of marketing strategies and that skillful marketing can in fact lead to continued growth.91 Market evolutIon Because the PLC focuses on what's happening to a particular product or brand rather than the overall market, it yields a product-oriented rather than a market-oriented picture. Firms also need to visualize a market's evolutionary path as it is affected by new needs, competitors, technology, channels, and other developments and change product and brand positioning to keep pace.92 Like products, markets evolve through four stages: emer- gence, growth, maturity, and decline. Consider the evolution of the paper towel market. PAPer tOweLS Homemakers originally used cotton and linen dishcloths and towels in their kitchens. Then a paper company looking for new markets developed paper towels, crystallizing a latent market that other manufacturers entered. The number of brands grew and created market fragmentation. Industry overcapacity led manufacturers to search for new features. One manufacturer, hearing consumers complain that paper towels were not absorbent, introduced "absorbent" towels and increased its market share. Competitors produced their own versions of absorbent paper towels, and the market fragmented again. One manufacturer introduced a "superstrength" towel that was soon copied. Another introduced a "lint-free" towel, subsequently copied. A later innovation was wipes containing a cleaning agent (like Clorox Disinfecting Wipes) that are often surface-specific (for wood, metal, or stone). Thus, driven by innovation and competition, paper towels evolved from a single product to one with various absorbencies, strengths, and applications. Marketing in a Slow-Growth Economy Given economic cycles, there will always be tough times, such as the recession of 2008–2009 and the slow recov- ery that has followed. Despite reduced funding for marketing programs and intense pressure to justify them as cost effective, some marketers have survived—or even thrived—in tough economic times. Here are five guide- lines for improving the odds for marketing success in a slow-growth economy.93 explore the upSIde oF InCreaSInG InveStMent Forty years of evidence suggests those willing to invest during a recession have, on average, improved their for- tunes more than those that cut back.94 Marketers should consider the potential upside of increasing investment to exploit a marketplace advantage like an appealing new product, a weakened rival, or a neglected target market to develop. Here are two companies that did. • General Mills increased marketing expenditures for the 2009 fiscal year by 16 percent, increased revenues by 8 percent to $14.7 billion, and increased operating profit by 4 percent. As CEO Ken Powell explained, "In an 360 PART 4 | Building STRong BRAndS environment where you have consumers going to the grocery store more often and thinking more about meals at home, we think that is a great environment for brand building, to remind consumers about our products."95 • UK supermarket giant Sainsbury launched an advertising and point-of-sale campaign called "Feed Your Family for a Fiver" that played off its corporate slogan, "Try Something New Today," to encourage shoppers to try new recipes that would feed families for only £5 (or $9). Get CloSer to CuStoMerS Consumers with leveling incomes may change what they want and where and how they shop. A downturn or slow-growth period is an opportunity to learn even more about what consumers are thinking, feeling, and doing, especially the loyal base that yields so much profitability.96 Firms should characterize any changes as temporary rather than permanent shifts.97 In explaining the need to look forward, Eaton CEO Alex Cutler noted, "It is a time when businesses shouldn't be assuming that the future will be like the past. And I mean that in virtually every dimension whether it is economic growth, value proposi- tions, or the level of government regulation and involvement."98 A recent Booz & Company survey of 1,000 U.S. households found 43 percent were eating at home more and 25 percent were cutting spending on hobbies and sports activities; respondents said they would likely continue to do so.99 Spending has shifted in many ways, and the potential value and profitability of some customers may change. As one retail analyst commented, "Moms who used to buy every member of the family their own brand of shampoo are buying one big cheap one."100 revIew BudGet alloCatIonS Slowed growth provides an opportunity for marketers to review their spending, opening promising new options and eliminating sacred cows if they don't yield results. It can be a good time to experiment. In London, T-Mobile created spontaneous "happenings" to convey its brand positioning that "Life's for Sharing" and generate massive publicity. Its "Dance" video, featuring 400 dancers getting subway riders to dance, was viewed millions of times on YouTube.101 Firms as diverse as Century 21 realtors and Red Robin gourmet burgers have increased online marketing activities.102 Dentists are turning to marketing, communicating with patients via e-mail newsletters, calling to set up appointments, and sending Twitter messages about new products or services.103 put Forth the MoSt CoMpellInG value propoSItIon Focusing heavily on price reductions and discounts can harm long-term brand equity and price integrity. Marketers should increase—and clearly communicate—their brands' value, conveying all the financial, logistical, and psychological benefits.104 GE changed its ad messages for the $3,500 Profile washer-and-dryer set during the In a slow growth economy, many dentists have embraced market- ing to better connect with their patients. So ur ce : © C an dy B ox Im ag es /S hu tt er st oc k AddReSSing ComPeTiTion And dRiving gRowTh | chapter 12 361 downturn to emphasize its practicality—it optimizes the use of soap and water per load and is gentle on clothes, extending their life.105 Marketers should ensure pricing has not crept up unduly over time.106 Procter & Gamble adopted a "surgi- cal" approach during the recession, reducing prices in some categories while communicating about innova- tion and value to support premium prices in others. Ads for Bounty claimed it was more absorbent than a "bargain brand"; ads for Olay Professional Pro-X's Intensive Wrinkle Protocol called it as effective as prescription "at half the price."107 Discounting successful brands is not a good option because it tells the market two things: your prices were too high before, and your products won't be worth the price once the discounts are gone. Appealing to frugal customers with a new brand at lower prices avoids alienating those still willing to pay for higher-priced brands. FIne-tune Brand and produCt oFFerInGS Marketers can review product portfolios and brand architecture to confirm that brands and sub-brands are clearly differentiated, targeted, and supported based on their prospects. Luxury brands can benefit from lower- priced brands or sub-brands in their portfolios. Armani is an example.108 ArMAni Armani differentiates its product line into three tiers distinct in style, luxury, customization, and price. In the most expensive, Tier I, are Giorgio Armani and Giorgio Armani Privé, custom-made couture products selling for thousands of dollars. In Tier II are Emporio Armani—young, modern, more affordable styles—and Armani jeans. In lower- priced Tier III are youthful and street-savvy versions, AIX Armani Exchange, sold exclusively at 268 retail locations. Each extension lives up to the Armani brand's core promise without diluting the parent's image. But clear differentiation minimizes consumer confusion and brand cannibalization. During slow growth, the lower end picks up the slack and helps maintain profitability. In 2011, the Giorgio Armani line accounted for 32 percent of total sales, Emporio Armani for 27 percent, and Armani Exchange for 14 percent. Brands and sub-brands targeting the lower end of the socioeconomic spectrum may be particularly important during slow growth. Value-driven companies like McDonald's, Walmart, Costco, Aldi, Dell, E*TRADE, Southwest Airlines, and IKEA may benefit most. Spam, the oft-maligned can of spiced ham and pork, found sales soaring during the recession.109 Slow times also are an opportunity to prune products with diminished prospects. In the post-9/11 recession, Procter & Gamble divested stagnant brands including Comet cleanser, Folgers coffee, Jif peanut butter, and Crisco oil and shortening to concentrate on higher-growth opportunities. Armani's three price tiers within its product lines helps the company survive and prosper in good and bad times. So ur ce : © M ic ha el K em p/ A la m y 362 PART 4 | Building STRong BRAndS MyMarketingLab Go to mymktlab.com to complete the problems marked with this icon as well as for additional Auto-graded and Assisted-graded writing questions. Marketing Debate Do Brands Have Finite Lives? Often, after a brand begins to slip in the marketplace or disappears altogether, commentators observe, "All brands have their day," implying brands have a finite life and cannot be expected to be leaders forever. Other experts contend brands can live forever and that their long-term success depends on marketers' skill and insight. Take a position: Brands cannot be expected to last forever versus There is no reason for a brand to ever become obsolete. Applications Marketing Discussion: Industry Roles Pick an industry. Classify firms according to the four dif- ferent roles they might play: leader, challenger, follower, and nicher. How would you characterize the nature of compe- tition? Do the firms follow the principles described in this chapter? 7. Technologies, product forms, and brands exhibit life cycles with distinct stages, usually introduction, growth, maturity, and decline. Most products today are in the maturity stage. 8. The introduction stage is marked by slow growth and minimal profits. If successful, the product enters a growth stage marked by rapid sales growth and increasing profits. In the maturity stage, sales growth slows and profits stabilize. Finally, the product enters a decline stage. The company's task is to identify truly weak products and phase them out with mini- mal impact on company profits, employees, and customers. 9. Like products, markets evolve through stages: emer- gence, growth, maturity, and decline. 10. In a slow-growth economy, marketers must explore the upside of increasing investments, get closer to cus- tomers, review budget allocations, put forth the most compelling value proposition, and fine-tune brand and product offerings. Summary 1. Growing the core or seeking organic growth—focusing on opportunities with existing products and markets—is often a prudent way to increase sales and profits. 2. A market leader has the largest market share in the rel- evant product market. To remain dominant, it looks to expand total demand and protect and perhaps increase its current share. 3. A market challenger attacks the market leader and other competitors in an aggressive bid for more market share. There are five types of general attack and specific attack strategies. 4. A market follower is a runner-up firm willing to main- tain its market share and not rock the boat. It can be a cloner, imitator, or adapter. 5. A market nicher serves small market segments ignored by larger firms. The key is specialization, which can command a premium price in the process. 6. Companies should maintain a good balance of con- sumer and competitor monitoring and not overly focus on competitors. AddReSSing ComPeTiTion And dRiving gRowTh | chapter 12 363 MP3 player, the first Blu-ray disc player, and the first Smartwatch. Samsung's success has been driven not only by successful product innovation, but also by aggressive brand building. The company has spent billions of dollars in marketing over the past decade, including sponsor- ing the Olympics since 1998 and running several global ad campaigns themed "Imagine," "Quietly Brilliant," and "Men Are Idiots," all of which included brand messages such as "technology," "design," and "human sensation." In 2005, Samsung surpassed Sony in the Interbrand ranking for the first time, and it continues to outperform Sony today. Samsung faces competitors in several different industries, including Google and Apple. However, the company is unique because, unlike rival firms, it has become a global leader in making both the components for electronics products and the actual devices sold to consumers. It controls virtually everything in the smart phone supply chain, from the chips to the screen, while Apple has to outsource these products. As a result, Samsung can keep costs low, create many products for many needs, make design changes quickly, and intro- duce new products at an unusually fast pace. The com- pany recently passed Apple as the number-one player in smart phones. With record sales of $327 billion in 2013 and more than 275,000 employees worldwide, Samsung continues to work toward its goal of earning $400 billion in revenue by the year 2020. Questions 1. What are some of Samsung's greatest competitive strengths? 2. Samsung's goal of earning $400 billion in sales by 2020 would bring it to the same level as Walmart. Is this a feasible goal? Why or why not? Sources: Moon Ihlwan, "Samsung Is Having a Sony Moment," BusinessWeek, July 30, 2007, p. 38; Martin Fackler, "Raising the Bar at Samsung," New York Times, April 25, 2006; "Brand New," Economist, January 15, 2005, pp. 10–11; Patricia O'Connell, "Samsung's Goal: Be Like BMW," BusinessWeek, August 1, 2005; Heidi Brown and Justin Doeble, "Samsung's Next Act," Forbes, July 26, 2004; John Quelch and Anna Harrington, "Samsung Electronics Company: Global Marketing Operations," Harvard Business School, January 16, 2008; Evan Ramstad, "Samsung's Swelling Size Brings New Challenges," Wall Street Journal, November 11, 2009; "Looking Good? LG v. Samsung," Economist, January 24, 2009; Haydn Shaughnessy, "What Makes Samsung Such an Innovative Company," Forbes, March 7, 2013; Zach Epstein, "Samsung Smashes Apple as Smartphone Explosion Continues in Q2," BGR.org, July 26, 2013; Darrell Etherington, "Samsung Goes First, Google Experiments and Apple Refines," Techcrunch.com, October 9, 2013; Chuck Jones, "Apple vs. Samsung: Who Could Win the Smartphone War?," Forbes, August 20, 2013; Ashraf Eassa, "Apple Has a Problem," The Motley Fool, September 27, 2013; Tim Worstall, "Why Samsung Beats Apple or Perhaps Vice Versa," Forbes, September 9, 2013; Samsung.com. Marketing Excellence >> Samsung Korean consumer electronics giant Samsung has made a remarkable transformation since its founding in 1938. Originally created as an exporter of dried Korean fish, vegetables, and fruit, the company evolved into a pro- vider of value-priced commodity products during the 1970s and 1980s that original equipment manufacturers (OEMs) sold under their own brands. When Samsung's founder passed away in 1987, his son Kun-Hee Lee succeeded him and restructured the company with the goal of becoming one of the world's top electronic companies. Samsung initially focused on volume and market domination rather than profitability. During the Asian financial crisis of the late 1990s, other Korean chaebols or conglomerates collapsed beneath a mountain of debt, but Samsung took a different approach. The company cut costs and refocused its vision on product quality, complete customer satisfaction, and manufacturing flex- ibility. This revolutionary strategy allowed its consumer electronic products to go from project phase to store shelves within six months. Samsung invested heavily in innovation, and many of its products—from semi- conductors to LCD screens—gained significant market share and became industry leaders in their respective categories. The company also focused intently on its memory-chip business, which established an impor- tant cash cow and made it the largest chipmaker in the world. Samsung continued to pour money into R&D during the 2000s, budgeting $40 billion for 2005–2010 alone. The company made innovation one of its highest priorities and emphasized its importance through extensive train- ing and recruiting. As a result, it introduced a wide range of electronic products under its strong brand umbrella. Samsung also partnered with longtime market leader Sony to create a $2 billion state-of-the-art LCD factory in South Korea and signed a milestone agreement to share 24,000 basic patents for components and production processes. Today, Samsung is a global marketer of premium- priced, Samsung-branded consumer electronics such as smart phones, flat-screen TVs, digital cameras, batteries, digital appliances, and semiconductors. The company's high-end smart phones and cell phones are now its growth engines, leading to a steady stream of innovations including the first cell phone with an 364 PART 4 | Building STRong BRAndS eroded as the PC revolution changed the way consum- ers viewed and bought technology. IBM's sales dropped from $5 billion in the early 1980s to $3 billion by 1989. The dip continued into the early 1990s when the com- pany felt pressure from Compaq and Dell and tried to split into smaller business units to compete. The results were disastrous, and IBM posted net losses of $16 billion between 1991 and 1993. Things turned around when a new CEO, Louis Gerstner, refocused IBM in a new strategic direction. He reconnected the company's business units, shed its commodity products, and focused on high-margin busi- nesses like consulting and middleware software. The company then introduced the iconic ThinkPad, which helped regain lost share. To rebuild its brand image, it consolidated marketing efforts from 70 advertising agen- cies to one and created a consistent, universal message. In 1997, IBM's chess-playing computer system, Deep Blue, also helped lift the company's brand image by de- feating the world's reigning chess champion in a historic event that captured the attention of millions. At the turn of the 21st century, IBM achieved new levels of success in the wake of the dot-com bust. The company moved further away from hardware by sell- ing its ThinkPad division to Lenovo and exiting disk drives. In addition, it embraced global consulting and data analytics by acquiring close to 100 firms, including PricewaterhouseCoopers. IBM's strategic focus on smart technologies is reflected in its ongoing campaign titled "Smarter Planet." The campaign highlights a few of the company's accomplishments to date and explores its ideas for the future. IBM is now focused on solving the world's most challenging high-tech problems, such as water manage- ment, traffic congestion, and collaborative health care. The company continuously changes its business mix in order to embrace profitable technologies and market opportunities. For example, 27 percent of its year 2000 income came from software, and in 2012, 45 percent. IBM believes that by 2015, 50 percent of its income will come from software. Today, IBM is the largest and most profitable infor- mation technology company in the world, with almost $100 billion in sales and 431,000 employees worldwide. It employs scientists, engineers, consultants, and sales professionals in more than 170 countries and holds more patents than any other U.S.-based technology company. Marketing Excellence >> IBM International Business Machines Corporation (IBM) man- ufactures and sells computer hardware and software, offers infrastructure services, and provides global con- sulting services. The company's roots date back to the 1880s, but it officially became known as IBM in 1924, under the leadership of then-president

Thomas J. Watson Sr. IBM flourished during the 1930s and 1940s, grow- ing primarily through sales of technologies developed for the military during World War I and World War II and of tabulating machines, which helped underpin the Social Security system in the 1930s. Watson Sr. led the company for four decades and helped establish some of its most successful business tactics, including excep- tional customer service, a professional and knowledge- able sales force, and a focus on large-scale, custom-built solutions for businesses. Watson Sr. also created the company's first slogan, "THINK," which quickly became a corporate mantra. Thomas J. Watson Jr. took over as CEO in 1952, and under his management IBM paved the way for in- novations in computation. The company worked with the government during the Cold War and built the air- defense SAGE computer system for $30 million. In 1964, it launched a revolutionary family of computers called the System/360, which used interchangeable software and peripheral equipment. For the system to succeed, how- ever, IBM had to cannibalize its own computer product lines and move its current systems to the new technol- ogy. Fortunately, the risk paid off, and IBM architec- ture became the industry standard. By the 1960s, the company was producing approximately 70 percent of all computers, beating out early competitors like General Electric, RCA, and Honeywell. The 1980s were a pivotal time in IBM's history. In 1981, the firm launched the first personal computer, which offered 18KB of memory, floppy disk drives, and an optional color monitor. It also spurred growth of the PC to companies like Microsoft and Intel marked the end of the company's monopoly in com- puting. During the 1980s, its market share and profits AddReSSing ComPeTiTion And dRiving gRowTh | chapter 12 365 its successes? Can IBM's plans to solve some of the world's most challenging problems succeed? Why or why not? 2 Who are IBM's biggest competitors today, and what risks does IBM face with its current strategy? Sources: Steve Lohr, "IBM Showing That Giants Can Be Nimble," New York Times, July 18, 2007; Jeffrey M. O'Brien, "IBM's Grand Plan to Save the Planet," Fortune, April 21, 2009; "IBM Archives," IBM, www.ibm.com; Louis V. Gerstner Jr., Who Says Elephants Can't Dance? Inside IBM's Historic Turnaround (New York: Harper Business, 2002); IBM 2012 Annual Report; www.ibm.com. From 2000 to 2012, IBM spent more than $75 billion on R&D, and approximately 30 percent of its annual R&D budget has funded long-term research to prepare for major changes in technologies, global economies, and businesses. Questions 1 Few companies have had such a long history of ups and downs as IBM. What were some of the keys to 366 In This Chapter, We Will Address the Following Questions 1. What are the characteristics of products, and how do marketers classify products? (p. 367) 2. How can companies differentiate products? (p. 370) 3. Why is product design important, and what are the different approaches taken? (p. 374) 4. How can marketers best manage luxury brands? (p. 376) 5. What environmental issues must marketers consider in their product strategies? (p. 378) 6. How can a company build and manage its product mix and product lines? (p. 379) 7. How can companies combine products to create strong co-brands or ingredient brands? (p. 385) 8. How can companies use packaging, labeling, warranties, and guarantees as marketing tools? (p. 390) With its relentless focus on quality and strong dealer network, Lexus has become one of the top luxury automotive brands in the world. Source: Robert Duyos/MCT/Newscom MyMarketingLab™ Improve Your Grade! Over 10 million students improved their results using the Pearson MyLabs. Visit mymktlab.com for simulations, tutorials, and end-of-chapter problems. Creating ValuePart 5 Chapter 13 Setting Product Strategy Chapter 14 Designing and Managing Services Chapter 15 Introducing New Market Offerings Chapter 16 Developing Pricing Strategies and Programs 367 Marketing planning begins with formulating an offering to meet target customers' needs or wants. The customer will judge the offering on three basic elements: product features and quality, service mix and quality, and price (see Figure 13.1). In this chapter we examine product, in Chapter 14, services, in Chapter 15, new products and services, and in Chapter 16, price. All three elements—products, services, and pricing—must be meshed into a competitively attractive market offering. At the heart of a great brand is a great product. To achieve market leadership, firms must offer products and services of superior quality that provide unsurpassed customer value. Lexus has conquered the luxury car market in the United States and elsewhere, in part due to a relentless focus on product and service quality.1 Setting Product Strategy 13 Since its inception in 1989, Lexus has emphasized top-notch product quality and customer care, as reflected by its long-time slogan, "The Relentless Pursuit of Perfection." At one point, in response to customer complaints over minor problems with its LS 400, the company sent technicians to each owner's home to fix the vehicles for free. As part of its "Lexus Covenant," it has vowed to "have the finest dealer network in the industry, and treat each customer as we would a guest in our own home." To this end, Lexus built its dealership framework from the ground up, hand-picking dealers committed to its promise to provide an exceptional experience to customers, a system competitors acknowledge is the industry ideal. The company offers a full product line anchored by its flagship LS sedan, as well as its GS sports coupe, RX SUVs, and ES midsize car. It is consistently highly rated in the Luxury Institute's annual Luxury Consumer Experience sur- veys, bolstered by strong dealership experience. In addition, J. D. Power and Associates has ranked Lexus the "most dependable" automotive brand 16 times since 1995, and the company consistently ranks above the industry average in customer retention. With its average buyer in his or her mid-50s, Lexus has set its sights on attracting younger buyers by emphasizing more aggressive styling, handling dynamics, and driver engagement. A new marketing initia- tive uses television advertising to link the brand and the LS sedan to a lavish, cool lifestyle. Social media and other promotions and events also create novel customer experiences around food, fashion, enter- tainment, and travel. Since its inception in 1989, Lexus has emphasized top-notch product quality and customer care, as reflected by its long-time slogan, "The Relentless Pursuit of Perfection." At one point, in response to Product Characteristics and Classifications Many people think a product is tangible, but technically a product is anything that can be offered to a market to satisfy a want or need, including physical goods, services, experiences, events, persons, places, properties, organi- zations, information, and ideas. Product LeveLs: the customer-vaLue hierarchY In planning its market offering, the marketer needs to address five product levels (see Figure 13.2).2 Each level adds more customer value, and together the five constitute a customer-value hierarchy. 368 PART 5 | CReATing VAlue Differentiation arises and competition increasingly occurs on the basis of product augmentation. Each augmen- tation adds cost, however, and augmented benefits soon become expected benefits and necessary points-of-parity in the category. If today's hotel guests expect large-screen HD TVs, wireless Internet access, and a fully equipped fitness center, competitors must search for still other features and benefits to differentiate their offerings. As some companies raise the price of their augmented product, others offer a stripped-down version for less. Thus, alongside the growth of expensive luxury hotels such as Four Seasons and Ritz-Carlton, we see lower-cost discount hotels and motels emerge such as Motel 6 and Comfort Inn, catering to clients who want simply the basic product. Marketers must be sure, however, that consumers not see lower quality or limited capability versions as unfair.3 Great companies make great products and services, as evident by Lego.4 LEGO LEGO may have been one of the first mass-customized brands. Every child who has ever had a set of the Danish company's most famous products knows the basic bricks may be built his or her own unique creations with it, brick by plastic brick. Although LEGO defines itself as being in the business of "play," parents like the idea of buying LEGO's products as a means of also enhancing their children's motor skills, creativity, and other cognitive capabilities. Some brick and systems are exactly the same as 50 years ago, but the company is always developing new product offerings. Popular play sets tied in with the Pirates of the Caribbean and Star Wars film franchises also include video games. LEGO Design byME lets customers design, share, and build their own custom products by downloading free Digital Designer 3.0 software. The creations that result can exist—and be shared with other enthusiasts—solely online, or, if customers want to build them, the software tabulates the pieces required and sends an order to LEGO's Enfield, Connecticut, warehouse. Customers can request step-by-step build- ing guide instructions and even design their own box to store the pieces. The success of The LEGO Movie in 2014 further underscored the widespread popularity of the brand. Attractiveness of the market offering Services mix and quality Product features and quality Value-based prices | Fig. 13.1 | Components of the Market Offering • The fundamental level is the core benefit: the service or benefit the customer is really buying. A hotel guest is buying rest and sleep. The purchaser of a drill is buying holes. Marketers must see themselves as benefit providers. • At the second level, the marketer must turn the core benefit into a basic product. Thus a hotel room includes a bed, bathroom, towels, desk, dresser, and closet. • At the third level, the marketer prepares an expected product, a set of attributes and conditions buy- ers normally expect when they purchase this product. Hotel guests minimally expect a clean bed, fresh towels, working lamps, and a relative degree of quiet. • At the fourth level, the marketer prepares an augmented product that exceeds customer expecta- tions. In developed countries, brand positioning and competition take place at this level. In devel- oping and emerging markets such as India and Brazil, however, competition takes place mostly at the expected product level. • At the fifth level stands the potential product, which encompasses all the possible augmentations and transformations the product or offering might undergo in the future. Here companies search for new ways to satisfy customers and distinguish their offering. Timeless toy manufacturer Lego constantly innovates so that its brand stays relevant with kids of all ages. So ur ce : © R ic ha rd M cD ow el l/A la m y SeTTing PRoduCT STRATegy | chapter 13 369 Product cLassIfIcatIons Marketers classify products on the basis of durability, tangibility, and use (consumer or industrial). Each type has an appropriate marketing-mix strategy.5 Durability anD tangibility Products fall into three groups according to durability and tangibility: 1. Nondurable goods are tangible goods normally consumed in one or a few uses, such as beer and shampoo. Because these goods are purchased frequently, the appropriate strategy is to make them available in many locations, charge only a small markup, and advertise heavily to induce trial and build preference. 2. Durable goods are tangible goods that normally survive many uses: refrigerators, machine tools, and clothing. They normally require more personal selling and service, command a higher margin, and require more seller guarantees. 3. Services are intangible, inseparable, variable, and perishable products that normally require more quality con- trol, supplier credibility, and adaptability. Examples include haircuts, legal advice, and appliance repairs. Consumer-gooDs ClassifiCation When we classify the vast array of consumer goods on the basis of shopping habits, we distinguish among convenience, shopping, specialty, and unsought goods. The consumer usually purchases convenience goods frequently, immediately, and with minimal effort. Examples include soft drinks, soaps, and newspapers. Staples are convenience goods consumers purchase on a regular basis. A buyer might routinely purchase Heinz ketchup, Crest toothpaste, and Ritz crackers. Impulse goods are purchased without any planning or search effort, like candy bars and magazines. Emergency goods are purchased when a need is urgent—umbrellas during a rainstorm, boots and shovels during the first winter snow. Manufacturers of impulse and emergency goods will place them where consumers are likely to experience an urge or compelling need to purchase. Shopping goods are those the consumer characteristically compares on such bases as suitability, quality, price, and style. Examples include furniture, clothing, and major appliances. Homogeneous shopping goods are similar in quality but different enough in price to justify shopping comparisons. Heterogeneous shopping goods differ in product features and services that may be more important than price. The seller of heterogeneous shopping goods carries a wide assortment to satisfy individual tastes and trains salespeople to inform and advise customers. Specialty goods have unique characteristics or brand identification for which enough buyers are willing to make a special purchasing effort. Examples include cars, audio-video components, and men's suits. A Mercedes is a specialty good because interested buyers will travel far to buy one. Specialty goods don't require comparisons; buyers invest time only to reach dealers carrying the wanted products. Dealers don't need convenient locations, though they must let prospective buyers know where to find them. Unsought goods are those the consumer does not know about or normally think of buying, such as smoke detectors. Other classic examples are life insurance, cemetery plots, and gravestones. Unsought goods require advertising and personal-selling support. Potential product Aug mented product Exp ected product Core benefit Ba sic product | Fig. 13.2 | Five Product Levels 370 PART 5 | CReATing VAlue inDustrial-gooDs ClassifiCation We classify industrial goods in terms of their relative cost and the way they enter the production process: materials and parts, capital items, and supplies and business services. Materials and parts are goods that enter the manufacturer's product completely. They fall into two classes: raw materials and manufactured materials and parts. Raw materials in turn fall into two major groups: farm products (wheat, cotton, livestock, fruits, and vegetables) and natural products (fish, lumber, crude petroleum, iron ore). Farm products are supplied by many producers, who turn them over to marketing intermediaries, who provide assembly, grading, storage, transportation, and selling services. The perishable and seasonal nature of farm products gives rise to special marketing practices, whereas their commodity character results in relatively little advertising and promotional activity. At times, commodity groups will launch campaigns to promote their product— potatoes, cheese, and beef. Some producers brand their products—Dole salads, Mott's apples, and Chiquita bananas. Natural products are limited in supply. They usually have great bulk and low unit value and must be moved from producer to user. Fewer and larger producers often market them directly to industrial users. Because users depend on these materials, long-term supply contracts are common. The homogeneity of natural materials limits the amount of demand-creation activity. Price and reliable delivery are the major factors influencing the selection of suppliers. Manufactured materials and parts fall into two categories: component materials (iron, yarn, cement, wires) and component parts (small motors, tires, castings). Component materials are usually fabricated further—pig iron is made into steel, and yarn is woven into cloth. The standardized nature of component materials usually makes price and supplier reliability key purchase factors. Component parts enter the finished product with no further change in form, as when small motors are put into vacuum cleaners and tires are put on automobiles. Most manufactured materials and parts are sold directly to industrial users. Price and service are major marketing considerations, with branding and advertising less important. Capital items are long-lasting goods that facilitate developing or managing the finished product. They fall into two groups: installations and equipment. Installations consist of buildings (factories, offices) and heavy equipment (generators, drill presses, mainframe computers, elevators). Installations are major purchases. They are usually bought directly from the producer, whose sales force includes technical staff, and a long negotiation precedes the typical sale. Producers must be willing to design to specification and to supply postsale services. Advertising is much less important than personal selling. Equipment includes portable factory equipment and tools (hand tools, lift trucks) and office equipment (desk- top computers, desks). These types of equipment don't become part of a finished product. They have a shorter life than installations but a longer life than operating supplies. Although some equipment manufacturers sell direct, more often they use intermediaries because the market is geographically dispersed, buyers are numerous, and orders are small. Quality, features, price, and service are major considerations. The sales force tends to be more important than advertising, though advertising can be used effectively. Supplies and business services are short-term goods and services that facilitate developing or managing the finished product. Supplies are of two kinds: maintenance and repair items (paint, nails, brooms) and operating supplies (lubricants, coal, writing paper, pencils). Together, they go under the name of MRO goods. Supplies are the equivalent of convenience goods; they are usually purchased with minimum effort on a straight-rebuy basis. They are normally marketed through intermediaries because of their low unit value and the great number and geo- graphic dispersion of customers. Price and service are important considerations because suppliers are standardized and brand preference is often not high. Business services include maintenance and repair services (window cleaning, copier repair) and business advisory services (legal, management consulting, advertising). Maintenance and repair services are usually supplied under contract by small producers or from the manufacturers of the original equipment. Business advisory services are usually purchased on the basis of the supplier's reputation and staff. Differentiation To be branded, products must be differentiated. At one extreme are products that allow little variation: chicken, aspirin, and steel. Yet even here some differentiation is possible: Perdue chickens, Bayer aspirin, and India's Tata Steel have carved out distinct identities in their categories. Procter & Gamble makes Tide, Cheer, and Gain laundry detergents, each with a separate brand identity. At the other extreme are products capable of high SeTTing PRoduCT STRATegy | chapter 13 371 differentiation, such as automobiles, commercial buildings, and furniture. Here the seller faces an abundance of differentiation possibilities. As Chapter 10 described, well-differentiated products can create significant competitive advantages. Intuitive Surgical sells million-dollar robotic systems for operating rooms. Watching a high-definition video feed from a camera inside the patient, surgeons use a joystick, pedals, and a robotic arm with five surgical needles to per- form minimally invasive cardiac and urological procedures. One analyst said of Intuitive Surgical in 2010, "In our view, they've got a decade's worth of technological lead."6 Means for differentiation include form, features, performance quality, conformance quality, durability, reli- ability, repairability, and style.7 Design has become an increasingly important differentiator, and we discuss it separately later in the chapter. Product dIfferentiatIon form Many products can be differentiated in form—the size, shape, or physical structure of a product. Consider the many possible forms of aspirin. Although essentially a commodity, it can be differentiated by dosage, size, shape, color, coating, or action time. features Most products can be offered with varying features that supplement their basic function. A company can identify and select appropriate new features by surveying recent buyers and then calculating customer value versus company cost for each potential feature. Marketers should consider how many people want each feature, how long it would take to introduce it, and whether competitors could easily copy it.8 To avoid "feature fatigue," the company must prioritize features and tell consumers how to use and benefit from them.9 Marketers must also think in terms of feature bundles or packages. Auto companies often manufacture cars at several "trim levels." This lowers manufacturing and inventory costs. Each company must decide whether to offer feature customization at a higher cost or a few standard packages at a lower cost. PerformanCe Quality Most products occupy one of four performance levels: low, average, high, or superior. Performance quality is the level at which the product's primary characteristics operate. Quality is growing increasingly important for differentiation as companies adopt a value model and provide higher quality for less money. Firms should design a performance level appropriate to the target market and competition, however, not necessarily the highest level possible. The company must also manage performance quality through time. Continuously improving the product can produce high returns and market share; failing to do so can have negative consequences. MErcEdEs-BEnz From 2003 to 2006, Mercedes-Benz endured one of the most painful stretches in its 127-year history. The company saw its reputation for stellar quality take a beating in J. D. Power and other surveys, and BMW surpassed it in global sales. To recoup, a new management team reorganized around functional elements—motors, chassis, and electronic systems—instead of model lines. Engineers now begin testing electronic systems a year earlier and put each new model through 10,000 diagnostics that run 24 hours a day for three weeks. Mercedes-Benz also tripled its number of prototypes for new designs, allowing engineers to drive them 3 million miles before production. With these and other changes, the number of flaws in the company's cars dropped 72 percent from their 2002 peak, and warranty costs decreased 25 per- cent. As an interesting side effect, Mercedes-Benz dealers have had to contend with a sizable drop in their repair and service businesses! The challenge now is to match the impressive levels of quality and reliability set by Japanese luxury foes.10 ConformanCe Quality Buyers expect a high conformance quality, the degree to which all produced units are identical and meet promised specifications. Suppose a Porsche 911 is designed to accelerate to 60 miles per hour within 10 seconds. If every Porsche 911 coming off the assembly line does this, the model is said to have high conformance quality. A product with low conformance quality will disappoint some buyers. Firms thoroughly test finished products to ensure conformance. Although men account for almost three-quarters of the world's beer sales, SABMiller found that women were actually more sensitive to levels of flavor in beer and thus were better product testers.11 Durability Durability, a measure of the product's expected operating life under natural or stressful conditions, is a valued attribute for vehicles, kitchen appliances, and other durable goods. The extra price for 372 PART 5 | CReATing VAlue durability must not be excessive, however, and the product must not be subject to rapid technological obsolescence, as personal computers, televisions, and cell phones have sometimes been. reliability Buyers normally will pay a premium for more reliable products. Reliability is a measure of the probability that a product will not malfunction or fail within a specified time period. Maytag has an outstanding reputation for creating reliable home appliances. Its long-running "Lonely Repairman" ad campaign was designed to highlight that attribute. rePairability Repairability measures the ease of fixing a product when it malfunctions or fails. Ideal repairability would exist if users could fix the product themselves with little cost in money or time. Some products include a diagnostic feature that allows service people to correct a problem over the telephone or advise the user how to correct it. Many computer hardware and software companies offer technical support over the phone, by fax or e-mail, or via real-time chat online. style Style describes the product's look and feel to the buyer and creates distinctiveness that is hard to copy. Car buyers pay a premium for Jaguars because of their extraordinary looks. Aesthetics play a key role for such brands as Apple computers, Godiva chocolate, and Harley-Davidson motorcycles.12 Strong style does not always mean high performance, however. A car may look sensational but spend a lot of time in the repair shop. Customization As Chapter 6 described, customized products and marketing allow firms to be highly relevant and differentiating by finding out exactly what a person wants—and doesn't want—and delivering on that. Online retailers such as Zazzle and CafePress allow users to upload images and create their own clothing and posters or buy merchandise created by other users. NikeiD, which allows customers to personalize and design their own shoes and clothing either online or in store at NikeiD Studios, now generates hundreds of millions of dollars in revenue.13 The demand for customization is certainly there. One Forrester study found that more than one-third of U.S. online consumers were interested in customizing product features or in purchasing build-to-order products that use their specifications. And companies have responded: M&M's allows you to print specialized messages on your candies; Pottery Barn Kids allows you to personalize a children's book; and for $2,000 or so, Burberry allows you to select the fabric, color, style, and five other features for your own personalized trench coat.14 servIces dIfferentIatIon When the physical product cannot easily be differentiated, the key to competitive success may lie in adding val- ued services and improving their quality. Rolls-Royce PLC has ensured its aircraft engines are in high demand by continuously monitoring their health for 1,300 airplane engines around the world through live satellite feeds. Under its TotalCare and CorporateCare programs, airlines pay Rolls a fee for every hour an engine is in flight, and Rolls assumes the risks and costs of downtime and repairs.15 After experiencing some declines in product quality, Mercedes-Benz changed how it made and tested its cars, with positive results. So ur ce : T R IP PL A A R K R IS TO FF ER /S IP A /N ew sc om SeTTing PRoduCT STRATegy | chapter 13 373 The main service differentiators are ordering ease, delivery, installation, customer training, customer consult- ing, maintenance and repair, and returns. orDering ease Ordering ease describes how easy it is for the customer to place an order with the company. Baxter Healthcare supplies hospitals with computer terminals through which they send orders directly to the firm. Many financial service institutions offer secure online sites to help customers get information and complete transactions more efficiently. Delivery Delivery refers to how well the product or service is brought to the customer, including speed, accuracy, and care throughout the process. Today's customers have grown to expect speed: pizza delivered in half an hour, eyeglasses made in 60 minutes, cars lubricated in 15 minutes. Many firms have computerized quick response systems (QRS) that link the information systems of their suppliers, manufacturing plants, distribution centers, and retailing outlets to improve delivery. Cemex, a giant cement company based in Mexico, has transformed its business by promising to deliver concrete faster than pizza, equipping every truck with a global positioning system (GPS) so dispatchers know its real-time location. Its 24/7 LOAD service program guarantees delivery within a 20-minute window, providing important flexibility in an industry where delays are costly but common.16 Installation Installation refers to the work done to make a product operational in its planned location. Ease of installation is a true selling point for technology novices and for buyers of complex products like heavy equipment. Customer training Customer training helps the customer's employees use the vendor's equipment properly and efficiently. General Electric not only sells and installs expensive X-ray equipment in hospitals, it also gives users extensive training. McDonald's requires its new franchisees to attend Hamburger University in Oak Brook, Illinois, for two weeks to learn how to manage the franchise properly. Customer Consulting Customer consulting includes data, information systems, and advice services the seller offers to buyers. Technology firms such as IBM, Oracle, and others have learned that such consulting is an increasingly essential—and profitable—part of their business. maintenanCe and rePair Maintenance and repair programs help customers keep purchased products in good working order. These services are critical in business-to-business settings. Goodyear's TVTrack program helps its fleet customers monitor and manage tire usage. Many firms offer online technical support, or "e-support," for customers, who can search an online database for fixes or seek online help from a technician. Appliance makers such as LG, Kenmore, and Miele have introduced products that can transmit self-diagnostic data over the phone to a customer service number that electronically describes the nature of any technical problems.18 Makers of luxury products especially recognize the importance of a smooth repair process. Although Movado watches are high-end, its repair process had been anything but, requiring time-consuming manual labor and customer inconvenience. Recognizing the need to offer more digital services in general, Movado created a Web site where customers can buy products directly from the company as well as execute many of the initial steps in the repair process online, such as registering any problems and identifying possible repair options before contacting customer service directly. The database created by users of the site has also allowed the company to recruit potential focus group participants and identify repair trends that may suggest recurring production problems.19 returns A nuisance to customers, manufacturers, retailers, and distributors alike, product returns are also an unavoidable reality of doing business, especially in online purchases. Free shipping, growing more popular, makes it easier for customers to try out an item, but it also increases the likelihood of returns. Returns can add up. One estimate is that 10 percent to 15 percent of overall holiday sales come back as returns or exchanges, and the total annual cost may be $100 billion.20 To the consumer, returns can be inconvenient, embarrassing, or difficult to complete. Returns have a downside for merchants too, when the returned merchandise is not in re-sellable condition, lacks proper proof of purchase, or is returned to the wrong store. It may even be used or stolen. Yet if the merchant is reluctant to accept returns, customers can become annoyed.21 Of course, product returns do have an upside. Physically returning a product can get the consumer into the store, maybe for the first time. One research study found that a lenient return policy left customers more willing to make other purchases and refer the company to others.22 374 PART 5 | CReATing VAlue We can think of product returns in two ways:23 • Controllable returns result from problems or errors made by the seller or customer and can mostly be eliminated with improved handling or storage, better packaging, and improved transportation and forward logistics by the seller or its supply chain partners. • Uncontrollable returns result from the need for customers to actually see, try, or experience products in person to determine suitability and can't be eliminated by the company in the short run. One basic strategy is to eliminate the root causes of controllable returns while developing processes for handling uncontrollable returns. The goal is to have fewer products returned and put a higher percentage back into the dis- tribution pipeline to be sold again. San Diego-based Road Runner Sports, which sells running shoes, clothing, and equipment through multiple stores, catalogs, and a Web site, trains its salespeople to be as knowledgeable as pos- sible in order to recommend the right products. As a result, its return rate on running shoes has been 12 percent, noticeably below the industry average of 15 percent to 20 percent. 24 Design As competition intensifies, design offers a potent way to differentiate and position a company's products and services. Design is the totality of features that affect the way a product looks, feels, and functions to a consumer. It offers functional and aesthetic benefits and appeals to both our rational and emotional sides.25 desIGn Leaders As holistic marketers recognize the emotional power of design and the importance to consumers of look and feel as well as function, design is exerting a stronger influence in categories where it once played a small role. Herman Miller office furniture, Viking ranges and kitchen appliances, and Kohler kitchen and bathroom fixtures and faucets are among the brands that now stand out in their categories thanks to attractive looks added to efficient and effective performance.26 Some countries have developed strong reputations for their design skills and accomplishments, such as Italy in apparel and furniture and Scandinavia in products designed for functionality, aesthetics, and environmental consciousness. Finland's Nokia was the first to introduce user-changeable covers for cell phones, the first to have elliptical-shaped, soft, and friendly forms, and the first with big screens, all contributing to its remarkable ascent. When it later failed to innovate its smart-phone designs, its fortunes dramatically declined. Braun, a German division of Gillette, has elevated design to a high art in its electric shavers, coffeemakers, hair dryers, and food processors. The International Design and Excellence Awards (IDEA) are given each year based on benefit to the user, benefit to the client/business, benefit to society, ecologi- cal responsibility, appropriate aesthetics and appeal, and usability testing. IDEO has been one of the more suc- cessful design companies through the years. Then in 2013 Samsung Electronics won 10 awards, 3M four, and Coway, Lenovo, LG Electronics, Nokia, and PearsonLloyd three each.27 Samsung's design accomplishments have been a result of a concerted effort.28 So ur ce : C ou rt es y H er m n M ill er Herman Miller has brought form and function to office furniture with their stylish, well-designed products. SeTTing PRoduCT STRATegy | chapter 13 375 saMsunG Much of Samsung's remarkable marketing success comes from innovative new products that have captured the imagination of consumers all over the world. The company has invested heavily in R&D and in design capabilities, with big payoffs. It has a clear design philosophy it calls "Design 3.0," and an internal design slogan, "Make it Meaningful," that reflects its relentless focus on making beautiful and intuitive products that will be integrated into customers' lifestyles. Samsung applies three design criteria: (1) simple and intuitive, (2) efficient and long-lasting, and (3) adaptive and engaging. Like its chief rival Apple, the company organizes its design efforts through a cross-divisional Corporate Design Center that reports directly to the CEO. The Corporate Design Center aligns the design efforts of various divisions and analyzes cultural trends to help forecast the future of design. It also coordinates the work done at Samsung's five Global Design Centers, located in London, San Francisco, Shanghai, Tokyo, and Delhi. Among the many awards the company has received for design were two IF Gold Awards in 2013—from one of the world's top three design contests— for its "split concept" color printer and its twin-tub washing machine especially designed for Southeast Asia users. Power of desIGn In a visually oriented culture, transmitting brand meaning and positioning through design is critical. "In a crowded marketplace," writes Virginia Postrel in The Substance of Style, "aesthetics is often the only way to make a product stand out."29 Design is especially important with long-lasting durable goods such as automobiles. As GM's VP of Design Ed Welburn notes, ". . . every car has its own mood, whether it's a van for India or a Cadillac for China, and needs to connect with customers at an emotional level." The GM design team for the 2011 plug-in electric Chevy Volt wanted to make sure the car looked better than other electric cars. As the Volt design director said, "Most electric cars are like automotive Brussels sprouts. They're good for you, but you don't want to eat them."30 Design can shift consumer perceptions to make brand experiences more rewarding. Consider the lengths Boeing went to in making its 777 airplane seem roomier and more comfortable. Raised center bins, side luggage bins, divider panels, gently arched ceilings, and raised seats make the aircraft interior seem bigger. One design engineer noted, "If we do our jobs, people don't realize what we have done. They just say they feel more comfortable." aPProaches to desIGn "Design is more than just creativity, or a phase in creating a product, service, or application. It's a way of thinking that can transform an entire enterprise."31 Design should penetrate all aspects of the marketing program so all design aspects work together. To the company, a well-designed product is easy to manufacture and distribute. To the customer, it is pleasant to look at and easy to open, install, use, repair, and dispose of. The designer must take all these goals into account.32 Given the creative nature of design, it's no surprise there isn't one widely adopted approach. Some firms employ formal, structured processes. Design thinking is a very data-driven approach with three phases: observation, ideation, and implementation. Design thinking requires intensive ethnographic studies of consumers, creative brainstorming sessions, and collaborative teamwork to decide how to bring the design idea to reality. Whirlpool used design thinking to develop the KitchenAid Architect Series II kitchen appliances with a more harmonized look than had existed in the category.33 Not everyone employs design thinking, however.34 BanG & OLufsEn The Danish firm Bang & Olufsen (B&O)—which has received many kudos for the design of its stereos, TV equipment, and telephones—trusts the instincts of a handful of designers who rarely con- sult with consumers. The company does not introduce many new products in any given year, so each one is expected to be sold for a long time. Its BeoLab 8000 speakers sold for $3,000 a pair when introduced in 1992 and retailed for more than $5,000 almost 20 years later. When the company was the subject of a special exhibition at the Museum of Modern Art in New York City, the museum noted, "Bang & Olufsen design their sound equipment as beautiful objects in their own right that do not inordinately call attention to themselves." Today, 15 B&O products are part of MOMA's permanent design collection. 376 PART 5 | CReATing VAlue Luxury Products Design is often an important aspect of luxury products, though these products also face some unique issues. They are perhaps one of the purest examples of the role of branding because the brand and its image are often key competitive advantages that create enormous value and wealth. Marketers for luxury brands such as Prada, Gucci, Cartier, and Louis Vuitton manage lucrative franchises that have endured for decades in what some believe is now a $270 billion industry.35 characterIzInG LuxurY Brands Significantly higher priced than typical items in their categories, luxury brands for years were about social status and who a customer was—or perhaps wanted to be. Times have changed, and especially in the aftermath of a crippling recession, luxury for many has become more about style and substance, combining personal pleasure and self-expression.36 A luxury shopper must feel he or she is getting something truly special. Thus the common denominators of luxury brands are quality and uniqueness. A winning formula for many is craftsmanship, heritage, authenticity, and history, often critical to justifying a sometimes extravagant price. Hermès, the French luxury leather-goods maker, sells its classic designs for hundreds or even thousands of dollars, "not because they are in fashion," as one writer put it, "but [because] they never go out of fashion."37 Here is how several luxury brands have become endur- ing market successes: • Sub-Zero refrigerators. Sub-Zero sells refrigerators that range from $1,600 for small, under-counter models to $12,000 for a specialty Pro 48 with a stainless steel interior. The target is customers with high standards of performance and design who cherish their home and what they buy to furnish it. Sub-Zero extensively surveys this group as well as the kitchen designers, architects, and retailers who recommend and sell its products.38 • Patrón tequila. Cofounded by Paul Mitchell hair care founder John Paul DeJoria, Patrón came about after a 1989 trip to a distillery in the small Mexican state of Jalisco. Named Patrón to convey "the boss, the cool guy," So ur ce : © D av id P ru te r/ Sh ut te rs to ck With its unique product formulation and bottle, Patron pioneered the high end tequila market. the smooth agave tequila comes in an elegant hand-blown decanter and is sold in individually numbered bottles for $45 or more. Essentially creating the high-end tequila market, with more than $1.1 billion in retail sales, Patrón has surpassed Jose Cuervo to become the world's largest tequila brand.39 • Montblanc luxury goods. The goal of Montblanc, whose products now range from pens to watches to leather goods and fragrances, is to be a strong luxury brand to as many classes of luxury customers as possible, while still retaining a prominent public image. The brand promise is that "the product you buy is of highest esteem, based on its timeliness, elegant design and the high quality, which is derived from the excellence of our craftsmen." The company branched out from its origins in writing instruments into categories such as leather goods and timepieces, where it could "rely on the trust of our customers, who believed in Montblanc as a brand that provides excellence in its core category writing instruments based on its philosophy of manufacturing competence, highest quality, sustainable value and creativity."40 GrowInG LuxurY Brands The recent recession challenged many luxury brands as they tried to justify their value proposition and avoid discounting their products.41 Those that had already successfully extended their brands vertically across a range of price points were usually the most immune to economic downturns. The Armani brand has extended from high-end Giorgio Armani and Giorgio Armani Privé to mid-range luxury with Emporio Armani to affordable luxury with Armani Jeans and Armani Exchange. Clear differentiation exists between these brands, minimizing the potential for consumer confusion and brand cannibalization. Each also lives up to the core promise of the parent brand, reducing chances of hurting the parent's image. Horizontal extensions into new categories can also be tricky for luxury brands. Even the most loyal consumer might question a $7,300 Ferragamo watch or an $85 SeTTing PRoduCT STRATegy | chapter 13 377 bottle of Roberto Cavalli vodka. Jewelry maker Bulgari has moved into hotels, fragrances, chocolate, and skin care, prompting some branding experts to deem the brand overstretched.42 In the past, iconic fashion designers Pierre Cardin and Halston licensed their names to so many ordinary products that the brands were badly tarnished. Ralph Lauren, however, has successfully marketed an aspirational luxury brand with wholesome all-American lifestyle imagery across a wide range of products. Besides clothing and fragrances, Lauren boutiques sell linens, candles, beds, couches, dishware, photo albums, and jewelry. Calvin Klein has adopted a similarly successful expansive strategy, though with different lifestyle imagery. Much of the growth in luxury brands in recent years has been geographical. China has overtaken the United States as the world's largest luxury market; it's forecast that one-third of all high-end goods will be sold there in the coming years. Although initially very "logo-driven" and interested in conspicuous brand signals, Chinese luxury consumers have also become more quality and design conscious, like luxury consumers in other parts of the world.43 marketInG LuxurY Brands Luxury marketers have learned that luxury is not viewed the same way around the world. In post-communist Russia for a time, as in China, the bigger and gaudier the logo, the better. But in the end, luxury brand marketers have to remember they are often selling a dream, anchored in product quality, status, and prestige. Just like marketers in less expensive categories, those guiding the fortunes of luxury brands operate in a constantly evolving marketing environment. Globalization, new technologies, financial crises, shifting consumer cultures, and other forces require them to be skillful and adept at their brand stewardship to succeed. Table 13.1 summarizes some key guidelines in marketing luxury brands. One trend for luxury brands is to wrap personal experiences around the products. Top-end fashion retailers are offering such experiences alongside their wares, expecting that customers who have visited a workshop or met the designer will feel closer to the brand. Gucci is inviting its biggest spenders to fashion shows, equestrian events, and the Cannes Film Festival.44 Porsche Sport Driving Schools and Experience Centers in Germany, the United States, and other parts of the world allow Porsche drivers to "train their driving skills and enjoy the all-out pleasure of driving, on-road, off- road, or on snow and ice." The recently opened state-of-the-art facility in Southern California features 45-degree off-road inclines and a simulated ice hill.45 table 13.1 Guidelines for Marketing Luxury Brands 1. Maintaining a premium image for luxury brands is crucial; controlling that image is thus a priority. 2. Luxury branding typically includes the creation of many intangible brand associations and an aspirational image. 3. All aspects of the marketing program for luxury brands must be aligned to ensure high-quality products and services and pleasurable purchase and consumption experiences. 4. Besides brand names, other brand elements—logos, symbols, packaging, signage—can be important drivers of brand equity for luxury products. 5. Secondary associations from linked personalities, events, countries, and other entities can boost luxury-brand equity as well. 6. Luxury brands must carefully control distribution via a selective channel strategy. 7. Luxury brands must employ a premium pricing strategy, with strong quality cues and few discounts and markdowns. 8. Brand architecture for luxury brands must be managed carefully. 9. Competition for luxury brands must be defined broadly because it often comes from other categories. 10. Luxury brands must legally protect all trademarks and aggressively combat counterfeits. Source: Based on Kevin Lane Keller, "Managing the Growth Tradeoff: Challenges and Opportunities in Luxury Branding," Journal of Brand Management 16 (March–May 2009), pp. 290–301. 378 PART 5 | CReATing VAlue In an increasingly wired world, some luxury marketers have struggled to find the appropriate online selling and communication strategies for their brand.46 Some fashion brands have begun to go beyond glossy magazine spreads to listening to and communicating with consumers through Facebook, Twitter, Foursquare, and other digital and social media channels. Coach and Tiffany are two luxury brands praised for their Web site and digital operations. E-commerce has also begun to take hold for some luxury brands. Sites such as Gilt Groupe and Ideel now offer new ways for fashion brands to move high-end goods.47 Ultimately, luxury marketers are learning that, as for all marketers, success depends on getting the right balance of classic and contemporary imagery and continuity and change in marketing programs and activities. Environmental Issues Environmental issues are also playing an increasingly important role in product design and manufacturing. Many firms are considering ways to reduce the negative environmental consequences of conducting business, and some are changing the manufacture of their products or the ingredients that go into them. "Marketing Memo: A Sip or a Gulp: Environmental Concerns in the Water Industry" considers some of the environmental issues raised by the sale of bottled water. In a fascinating twist, Levi-Strauss found a highly creative way to address the problem of proliferating plastic bottles.48 LEVi's WastE