Customers, Segmentation, and Target Marketing

CHAPTER 5

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INTRODUCTION

In this chapter, we begin our discussion of marketing strategy by examining customers, segments, and target markets. In Chapter 1, we referred to a market as a collection of buyers and sellers. Now, we focus our attention on the buyers who collectively make up the major portion of most markets. From this perspective, we concern ourselves with markets as individuals, institutions, or groups of individuals or institutions that have similar needs that can be met by a particular product offering. As we shall see, firms can attempt to reach all buyers in a market, smaller groups or segments of the market, or even specific buyers on an individual level. Whether the firm aims for the entire market or smaller market segments, the goal of marketing strategy is to identify specific customer needs, then design a marketing program that can satisfy those needs. To do this effectively, the firm must have a comprehensive understanding of its current and potential customers, including their motivations, behaviors, needs, and wants.

The ability to determine in-depth information about customers is a fairly recent phenomenon in marketing. Fifty years ago, for example, technology and marketing know-how were less sophisticated. Marketers of the day were unable to fully understand customers' needs and wants, much less make fine distinctions among smaller segments of the total market. Marketers tended to offer products that came in only one variety, flavor, or style. Today, market segmentation is critical to the success of most firms. Segmentation allows marketers to more precisely define and understand customer needs, and gives them the ability to tailor products to better suit those needs. As discussed in Beyond the Pages 5.1, the level of detailed information available about customers today has changed the way firms do business. However, the use of such information raises concerns about consumer privacy. Still, without segmentation we would not enjoy the incredible variety of products available today. Consider the number of choices we have in categories such as soft drinks, cereals, packaged goods, automobiles, and clothing. In many respects, segmentation has improved our standard of living. Customers now expect firms to delve into their needs and wants, and to tailor products accordingly. This fact makes market segmentation a vital part of marketing strategy. Until a firm has chosen and analyzed a target market, it cannot make effective decisions regarding other elements of the marketing strategy.

In this chapter, we examine issues associated with buyer behavior in both consumer and business markets. We also discuss traditional and individualized approaches to market segmentation, the criteria for successful market segmentation, and specific target marketing strategies. The potential combinations of target

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BEYOND THE PAGES 5.1

Companies Learn Our Secrets Through Data Mining[1]

Consider a world where what you eat, read, wear, listen to, watch, buy, and do can be reduced to a mathematical formula. Every move you make is tracked with such a level of specificity that your entire life can be captured in a computer model. Sound far-fetched? It's not. Today, the combination of computer science, mathematics, and business is changing our view of consumers and their behavior. The ability to track consumer behavior has never been more advanced than it is today. The new insights gained from the mathematical modeling of consumer behavior is creating new avenues for business, allowing marketers to develop one-to-one relationships with consumers, and causing a fair amount of anxiety. It is also causing a sharp increase in the hiring of math graduates from our nation's universities.

Through advanced math, computer modeling, and data mining, businesses have been able to track consumer attitudes and behaviors for some time. The difference today is the unprecedented access to data made available via the Internet and other technologies. Over the past 10 years, a sizable portion of the consuming public has moved its work, play, conversation, and shopping online. These integrated networks collect vast amounts of data and store our lives in databases that can be connected in ways that allow us to capture a more complete picture of consumer behavior. For example, researchers at companies like Facebook, Yahoo!, Google, and Amazon are developing mathematical models of customers. These firms are also working with other companies and government agencies to develop models that can predict voting behavior, how patients respond to disease intervention, or which employee is best suited for a job assignment. For example, Target's data mining expertise raised a few eyebrows when the *New York Times* uncovered that the retailer was able to tell when a customer was pregnant or about to deliver. Target's statisticians are able to tie millions of purchases together to reveal patterns in their data. One of their insights: When women become pregnant, they buy a lot of supplements such as calcium, magnesium, and zinc. When their delivery date is close, pregnant women tend to buy a lot of scent-free products, large bags of cotton balls, hand sanitizer, and washcloths. Target uses this information to target ads and coupons to the right consumers. Data mining results like these are one of the reasons for Target's incredible growth from $44 billion in revenue in 2002 to roughly $72.5 billion in 2013.

Retailers are not the only companies that use data mining. The advertising and media industries are perhaps the most affected by this shift. As mass audience advertising has declined, marketers have been looking for ways to target customers more directly. Google is a pioneer in this effort because the company has amassed an unfathomable amount of data on what customers do online. Other companies now provide data mining solutions. In research conducted with SPSS, for example, Italian carmaker Fiat was able to improve customer relations and increase customer retention by 6 to 7 percent. Microsoft uses its own analytical techniques to study the productivity of its workforce. Furthermore, Harrah's Entertainment (a major player in the casino industry) has increased their annual growth rate by using computer models to predict which customers will respond to the company's targeted advertising and promotional offers.

Of course, all of this sophistication comes at a price. The ability of companies to track customers and model their behavior raises a number of privacy concerns. Although most companies take great pains to protect individual consumer identities and their private information, major issues often arise. For example, that same data warehouse Target uses to reach its customers was hacked in late 2013. The hackers stole personal information and credit card numbers for over 70 million Target customers. Major problems like this are still relatively rare; however, the continuing erosion of consumer privacy is likely to continue. A key question for marketers is at what point will consumers say enough is enough? How far can firms push the boundaries of data collection and analysis before consumers mount a backlash?

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markets and marketing programs are essentially limitless. Choosing the right target market from among many possible alternatives is one of the key tests in developing a good marketing strategy.

BUYER BEHAVIOR IN CONSUMER MARKETS

Trying to understand the buyer behavior of consumers is a very trying and challenging task. The behavior of consumers is often irrational and unpredictable. Consumers often say one thing but do another. Still, the effort spent trying to understand consumers is valuable because it can provide needed insight on how to design products and marketing programs that better meet consumer needs and wants. One of the most recent trends in learning about customers is the rising use of ethnography, a qualitative research technique designed to understand cultural phenomena such as communication, shared meanings, and personal interests. Computer maker Lenovo, for example, has used ethnographic research to learn more about how families in India use consumer electronics. One interesting finding is that the family social center in Indian homes is the parents' bedroom. The kitchen serves the same social function in American homes. Lenovo uses this type of information to develop consumer electronics that better fit differing family lifestyles in India and the United States. With the continuing growth of the Internet, marketers have been scouring social media such as Facebook, Twitter, and Instagram to gain cultural insights about consumers. One of the most useful of these sites is Pinterest, where people can "pin" anything that interests them. Pinterest's phenomenal growth (up 111 percent in 2014) and its open nature make it a treasure trove of information about American culture. Marketers see Pinterest as a great way to showcase brands, especially among women (42 percent of all women online use Pinterest). The number of male users has also been growing—up 73 percent in 2014.[2]

In this section, we look at key issues with respect to buyer behavior in consumer markets. Here, we examine the consumer buying process and the factors that alter the ways consumers buy goods and services. As we will see, successful marketing strategy depends on a clear understanding of customers with respect to who they are, what they need, what they prefer, and why they buy. Although this understanding clearly has relevance for designing the product offering, it also impacts the pricing, distribution, and promotion decisions in the marketing program.

The Consumer Buying Process

The consumer buying process shown in Exhibit 5.1 depicts five stages of activities that consumers may go through in buying goods and services. The process begins with the recognition of a need, and then passes through the stages of information search, evaluation of alternatives, purchase decision, and postpurchase evaluation. A marketer's interest in the buying process can go well beyond these stages to include actual consumption behaviors, product uses, and product disposal after consumption. As we consider each stage of the buying process, it is important to keep a few key issues in mind.

First, the buying process depicts the possible range of activities that may occur in making purchase decisions. Consumers, however, do not always follow these stages in sequence and may even skip stages en route to making a purchase. For example, impulse purchases, such as buying a pack of chewing gum or a newspaper, do not involve lengthy search or evaluation activities. On the other hand, complex purchases like buying a home are often quite lengthy as they incorporate every stage of the buying process. Likewise, consumers who are loyal to a product or brand will skip some stages and are most likely to simply purchase the same product they bought last time. Consequently, marketers have a difficult time promoting brand

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EXHIBIT 5.1 The Consumer Buying Process.

Stages	Key Issues
Need Recognition	• Consumer needs and wants are not the same. • An understanding of consumer wants is essential for market segmentation and the development of the marketing program. • Marketers must create the appropriate stimuli to foster need recognition.
Information Search	• Consumers trust internal and personal sources of information more than external sources. • The amount of time, effort, and expense dedicated to the search for information depends on (1) the degree of risk involved in the purchase, (2) the amount of experience the consumer has with the product category, and (3) the actual cost of the search in terms of time and money. • Consumers narrow their potential choices to an evoked set of suitable alternatives that may meet their needs.
Evaluation of Alternatives	• Consumers translate their needs into wants for specific products or brands. • Consumers evaluate products as bundles of attributes that have varying abilities to satisfy their needs. • Marketers must ensure that their product is in the evoked set of potential alternatives. • Marketers must take steps to understand consumers' choice criteria and the importance they place on specific product attributes.
Purchase Decision	• A consumer's purchase intention and the actual act of buying are distinct concepts. Several factors may prevent the actual purchase from taking place. • Marketers must ensure that their product is available and offer solutions that increase possession utility.
Postpurchase Evaluation	• Postpurchase evaluation is the connection between the buying process and the development of long-term customer relationships. • Marketers must closely follow consumers' responses (delight, satisfaction, dissatisfaction, cognitive dissonance) to monitor the product's performance and its ability to meet customers' expectations.

switching because they must convince these customers to break tradition and take a look at what different products have to offer.

Second, the buying process often involves a parallel sequence of activities associated with finding the most suitable merchant of the product in question. That is, while consumers consider which product to buy, they also consider where they might buy it. In the case of name brand products, this selection process may focus on the product's price and availability at different stores or online merchants. A specific model of Sony television, for example, is often available from many different retailers and may even be available at Sony's website. Conversely, in the case of private-label merchandise, the choices of product and merchant are made simultaneously. If a customer is interested only in Gap brand clothing, then that customer must purchase the clothing from a Gap store or the Gap website.

Third, the choice of a suitable merchant may actually take precedence over the choice of a specific product. In some cases, customers are so loyal to a particular merchant that they will not consider looking elsewhere. For example, many older consumers are fiercely loyal to American car manufacturers. These customers will limit their product selection to a single brand or dealership, greatly limiting their range of potential product choices. In other cases, customers might be loyal to a particular merchant because they hold that merchant's credit card or are a member of its frequent-user customer program. Finally, some merchants become so well known

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When consumers purchase products like candy or gum on impulse, they rarely go through each stage of the buying process.

for certain products that customers just naturally execute their buying process with those merchants. Sears, for example, is well known for its selection of name-brand appliances and tools. For many customers, Sears is the natural place to go when they are in the market for a new refrigerator, washer, or wrenches.

Need Recognition

The buying process begins when consumers recognize that they have an unmet need. This occurs when consumers realize that there is a discrepancy between their existing level of satisfaction and their desired level of satisfaction. Consumers can recognize needs in a variety of settings and situations. Some needs have their basis in internal stimuli, such as hunger, thirst, and fatigue. Other needs have their basis in external stimuli, such as advertising, window shopping, interacting with salespeople, or talking with friends and family. External stimuli can also arouse internal responses, such as the hunger you might feel when watching an advertisement for Pizza Hut.

Typically, we think of needs as necessities, particularly with respect to the necessities of life (food, water, clothing, safety, shelter, health, or love). However, this definition is limited because everyone has a different perspective on what constitutes a need. For example, many people would argue that they need a car when their real need is for transportation. Their need for a car is really a "want" for a car. This is where we draw the distinction between needs and wants. A **need** occurs when an individual's current level of satisfaction does not equal their desired level of satisfaction. A **want** is a consumer's desire for a specific product that will satisfy the need. Hence, people need transportation, but they choose to fulfill that need with a car, rather than with alternative products like motorcycles, bicycles, public transportation, a taxi, or a horse.

The distinction between needs and wants is not simply academic. In any marketing effort, the firm must always understand the basic needs fulfilled by their products. For example, people do not need drills; they need to make holes or

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drive screws. Similarly, they do not need lawnmowers; they need shorter, well-manicured grass. Understanding these basic needs allows the firm to segment markets and create marketing programs that can translate consumer needs into wants for their specific products. An important part of this effort involves creating the appropriate stimuli that will foster need recognition among consumers. The idea is to build on the basic need and convince potential consumers to want your product because it will fulfill their needs better than any competing product.

It is also important to understand that wants are not the same thing as demand. Demand occurs only when the consumer's ability and willingness to purchase a specific product backs up their want for the product. Many customers want a luxury yacht, for example, but only a few are able and willing to buy one. In some cases, consumers may actually need a product, but not want it. So-called "unsought products" like life insurance, cemetery plots, long-term health insurance, and continuing education are good examples. In these cases, the marketer must first educate consumers on the need for the product, and then convince consumers to want their products over competing products. For example, Allstate's "Are You in Good Hands?" campaign specifically questions whether potential customers are sure about their insurance coverage. Creating the seed of doubt in the consumer's mind is a good first step toward educating potential customers about the need for adequate insurance.

Understanding consumers' needs and wants is an important consideration in market segmentation. Some markets can be segmented on the basis of needs alone. College students, for example, have needs that are very different from senior citizens, and single consumers have very different needs than families with small children. However, the marketing of most products does not occur on the basis of need-fulfillment alone. In the automobile market, for example, essentially no manufacturer promotes their products as being the best to get you from Point A to Point B (the basic need of transportation). Rather, they market their products on the basis of consumer wants such as luxury (Lexus), image (Mercedes), sportiness (Jaguar), durability (Ford trucks), fuel economy (Honda Civic), and value (Kia). These wants are the hot buttons for consumers, and the keys to promoting further activity in the buying process.

Information Search

When done correctly, marketing stimuli can prompt consumers to become interested in a product, leading to a desire to seek out additional information. This desire can be passive or active. In a passive information search, the consumer becomes more attentive and receptive to information, such as noticing and paying attention to automobile advertisements if the customer has a want for a specific car brand. A consumer engages in an active information search when he or she purposely seeks additional information, such as browsing the Internet, asking friends, or visiting dealer showrooms. Information can come from a variety of sources. Internal sources, including the personal experiences and memories, are typically the first type of information that consumers search. Information can also come from personal sources, including word-of-mouth advice from friends, family, or coworkers. External sources of information include advertising, magazines, websites, packaging, displays, and salespeople. Although external sources are the most numerous, consumers typically trust these sources less than internal and personal sources of information.

The amount of time, effort, and expense dedicated to the search for information depends on a number of issues. First, and perhaps most important, is the degree of risk involved in the purchase. Consumers by nature are naturally risk averse; they use their search for information to reduce risk and increase the odds of making the right choice. Risk comes in many forms, including financial risk (buying a home), social risk (buying the right clothing), emotional risk (selecting a wedding

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photographer), and personal risk (choosing the right surgeon). In buying a car, for example, consumers regularly turn to *Consumer Reports* magazine, friends, and government safety ratings to help reduce these types of risk. A second issue is the amount of expertise or experience the consumer has with the product category. If a first-time buyer is in the market for a notebook computer, they face a bewildering array of choices and brands. This buyer is likely to engage in an extensive information search to reduce risk and narrow the potential set of product choices. The same buyer, several purchases later, will not go through the same process. Finally, the actual cost of the search in terms of time and money will limit the degree to which consumers search for information. In some situations, such as time deadlines or emergencies, consumers have little time to consult all sources of information at their disposal.

Throughout the information search, consumers learn about different products or brands and begin to remove some from further consideration. They evaluate and reevaluate their initial set of products or brands until their list of potential product choices has been narrowed to only a few products or brands that can meet their needs. This list of suitable alternatives is called the **evoked set**, and it represents the outcome of the information search and the beginning of the next stage of the buying process.

Evaluation of Alternatives

In evaluating the alternative product or brand choices among the members of the evoked set, the consumer essentially translates his or her need into a want for a specific product or brand. The evaluation of alternatives is the black box of consumer behavior because it is typically the hardest for marketers to understand, measure, or influence. What we do know about this stage of the buying process is that consumers base their evaluation on a number of different criteria, which usually equate with a number of product attributes.

Consumers evaluate products as bundles of attributes that have varying abilities to satisfy their needs. In buying a car, for example, each potential choice represents a bundle of attributes, including brand attributes (e.g., image, reputation, reliability, safety), product features (e.g., power windows, automatic transmission, fuel economy), aesthetic attributes (e.g., styling, sportiness, roominess, color), and price. Each consumer has a different opinion as to the relative importance of these attributes—some put safety first, while others consider price the dominant factor. Another interesting feature of the evaluation stage is that the priority of each consumer's choice criteria can change during the process. Consumers may visit a dealership with price as their dominant criterion, only to leave the dealership with price dropping to third on their list of important attributes.

There are several important considerations for marketers during the evaluation stage. First and foremost, the firm's products must be in the evoked set of potential alternatives. For this reason, marketers must constantly remind consumers of their company and its product offerings. Second, it is vital that marketers take steps to understand consumers' choice criteria and the importance they place on specific product attributes. As we will see later in this chapter, understanding the connection between customers' needs and product attributes is an important consideration in market segmentation and target marketing decisions. Finally, marketers must often design marketing programs that change the priority of choice criteria or change consumers' opinions about a product's image. Microsoft, for example, has moved to combat the rapid growth of Apple's iPad and MacBook Air by aggressively promoting its own Surface Pro 3. Microsoft touts the Surface Pro 3 as the first tablet that can replace a laptop by emphasizing uncommon tablet features such as a USB port, pen input, and a kickstand for standing the tablet upright on a desk. With the success of the Surface Pro 3, Microsoft will continue to push forward with a flurry of advertisements touting its highly rated tablet.[3]

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Purchase Decision

After the consumer has evaluated each alternative in the evoked set, he or she forms an intention to purchase a particular product or brand. However, a purchase intention and the actual act of buying are distinct concepts. A consumer may have every intention of purchasing a new car, for example, but several factors may prevent the actual purchase from taking place. The customer may postpone the purchase due to unforeseen circumstances, such as an illness or job loss. The salesperson or the sales manager may anger the consumer, leading them to walk away from the deal. The buyer may not be able to obtain financing for their purchase due to a mistake in their credit file. Or the buyer may simply change his or her mind. Marketers can often reduce or eliminate these problems by reducing the risk of purchase through warranties or guarantees, making the purchase stage as easy as possible, or finding creative solutions to unexpected problems.

Assuming these potential intervening factors are not a concern, the key issues for marketers during the purchase stage are product availability and possession utility. Product availability is critical. Without it, buyers will not purchase from you, but from someone else who can deliver the product. The key to availability—which is closely related to the distribution component of the marketing program—is convenience. The goal is to put the product within the consumer's reach wherever that consumer happens to be. Coca-Cola has long understood this issue, and it is the reason for the company's long-held business mantra to put Cola-Cola "within an arm's length of desire." In other words, it should always be very easy for customers to find a Coke.[4] This task is closely related to possession utility, or the ease of taking possession of a product. To increase possession utility, the marketer may have to offer financing or layaway for large dollar purchases, delivery and installation of products like appliances or furniture, home delivery of convenience items like pizza or newspapers, or the proper packaging and prompt shipment of items through the mail.

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Free delivery is one of the most common ways to increase possession utility during the purchase stage of the consumer buying process.

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Postpurchase Evaluation

In the context of attracting and retaining buyers, postpurchase evaluation is the connection between the buying process and the development of long-term customer relationships. Marketers must closely follow consumers' responses during this stage to monitor the product's performance and its ability to meet consumers' expectations. In the postpurchase stage, consumers will experience one of these four outcomes:

- **Delight**—the product's performance greatly exceeds the consumer's expectations
- **Satisfaction**—the product's performance matches the consumer's expectations
- **Dissatisfaction**—the product's performance falls short of the consumer's expectations
- **Cognitive Dissonance (Postpurchase Doubt)**—the consumer is unsure of the product's performance relative to their expectations

Consumers are more likely to experience dissatisfaction or cognitive dissonance when the dollar value of the purchase increases, the opportunity costs of rejected alternatives are high, or the purchase decision is emotionally involving. Firms can manage these responses by offering liberal return policies, providing extensive post-sale support, or reinforcing the wisdom of the consumer's purchase decision. The firm's ability to manage dissatisfaction and dissonance not only is a key to creating customer satisfaction, but also has a major influence on the consumer's intentions to spread word-of-mouth information about the company and its products.

Factors that Affect the Consumer Buying Process

As we have mentioned previously, the stages in the buying process depict a range of possible activities that may occur as consumers make purchase decisions. Consumers may spend relatively more or less time in certain stages, they may follow the stages in or out of sequence, or they may even skip stages entirely. This variation in the buying process occurs because consumers are different, the products that they buy are different, and the situations in which consumers make purchase decisions are different. There are a number of factors that affect the consumer buying process, including the complexity of the purchase and decision, individual influences, social influences, and situational influences. Let's briefly examine each factor.

Decision-Making Complexity

The complexity of the purchase and decision-making process is the primary reason why the buying process will vary across consumers and with the same consumer in different situations. For example, highly complex decisions, such as buying a first home, a first car, selecting the right college, or choosing elective surgery, are very involving for most consumers. These purchases are often characterized by high personal, social, or financial risk; strong emotional involvement; and the lack of experience with the product or purchase situation. In these instances, consumers will spend a great deal of time, effort, and even money to help ensure that they make the right decision. In contrast, purchase tasks that are low in complexity are relatively non-involving for most consumers. In some cases, these purchase tasks can become routine in nature. For example, many consumers buy groceries by selecting familiar items from the shelf and placing them in their carts without considering alternative products.

For marketers, managing decision-making complexity is an important consideration. Marketers of highly complex products must recognize that consumers are quite risk averse and need a great deal of information to help them make the right decision. In these situations, access to high-quality and useful information should

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be an important consideration in the firm's marketing program. Firms that sell less complex products do not have to provide as much information, but they do face the challenges of creating a brand image and ensuring that their products are easily recognizable. For these marketers, issues such as branding, packaging, advertising, and point-of-purchase displays are key considerations in the marketing program.

Individual Influences

The range of individual influences that can affect the buying process is quite extensive. Some individual factors, such as age, life cycle, occupation, and socioeconomic status, are fairly easy to understand and incorporate into the marketing strategy. For the most part, these individual factors dictate preferences for certain types of products or brands. Married consumers with three children will clearly have different needs and preferences than young, single consumers. Likewise, more affluent consumers will have the same basic needs as less affluent consumers; however, their "wants" will be quite different. These individual factors are quite useful for marketers in target market selection, product development, and promotional strategy.

Other individual factors, such as perceptions, motives, interests, attitudes, opinions, or lifestyles, are much harder to understand because they do not clearly coincide with demographic characteristics such as age, gender, or income levels. These individual factors are also very difficult to change. For that reason, many marketers adapt their products and promotional messages to fit existing attitudes, interests, or lifestyles. For example, Kia has used human-size rapping hamsters to market its Soul wagon since its introduction in 2008. The hip-hop inspired ads are targeted at a younger, nonconformist demographic that loves music and social activities.[5]

Social Influences

Like individual influences, there is a wide range of social influences that can affect the buying process. Social influences such as culture, subculture, social class, reference groups, and family have a profound impact on what, why, and how consumers buy. Among these social influences, none is more important than the family. From birth, individuals become socialized with respect to the knowledge and skills needed to be an effective consumer. As adults, consumers typically exhibit the brand and product preferences of their parents. The influence of children on the buying process has grown tremendously over the last 50 years.

Reference groups and opinion leaders also have an important impact on consumers' buying processes. Reference groups act as a point of comparison and source of product information. A consumer's purchase decisions tend to fall in line with the advice, beliefs, and actions of one or more reference groups. Opinion leaders can be part of a reference group or may be specific individuals that exist outside of a reference group. When consumers feel like they lack personal expertise, they seek the advice of opinion leaders, who they view as being well informed in a particular field of knowledge. In some cases, marketers will seek out opinion leaders before trying to reach more mainstream consumers. Software manufacturers, for example, release beta (test) versions of their products to opinion leaders before a full-scale launch. Not only does this practice work the bugs out of the product, it also starts a word-of-mouth buzz about the upcoming software release.

Situational Influences

There are a number of situational influences that can affect the consumer buying process. Exhibit 5.2 illustrates some of the most common situational influences, many of which affect the amount of time and effort that consumers devote to the purchase task. For example, hungry consumers who are in a hurry often grab the quickest lunch they can find—even if it comes from a vending machine. This fact accounts for the quick success of Pret a Manger ("ready to eat" in French), a chain of

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EXHIBIT 5.2 Common Situational Influences in the Consumer Buying Process.

Situational Influences	Examples	Potential Influences on Buying Behavior
Physical and spatial influences	Retail atmospherics Retail crowding Store layout and design	A comfortable atmosphere or ambience promotes lingering, browsing, and buying. Crowded stores may cause customers to leave or buy less than planned.
Social and interpersonal influences	Shopping in groups Sales people Other customers	Consumers are more susceptible to the influences of other consumers when shopping in groups. Rude sales people can end the buying process. Obnoxious "other" customers may cause the consumer to leave or be dissatisfied.
Temporal (time) influences	Lack of time Emergencies Convenience	Consumers will pay more for products when they are in a hurry or face an emergency. Lack of time greatly reduces the search for information and the evaluation of alternatives. Consumers with ample time can seek information on many different product alternatives.
Purchase task or product usage influences	Special occasions Buying for others Buying a gift	Consumers may buy higher quality products for gifts or special occasions. The evoked set will differ when consumers are buying for others as opposed to themselves.
Consumer dispositional influences	Stress Anxiety Fear Fatigue Emotional involvement Good/bad mood	Consumers suffering from stress or fatigue may not buy at all or they may indulge in certain products to make themselves feel better. Consumers who are in a bad mood are exceptionally difficult to please. An increase in fear or anxiety over a purchase may cause consumers to seek additional information and take great pains to make the right decision.

grab-and-go restaurants that offers prepackaged meals focusing on fresh, all-natural, and organic foods. The company strives to serve customers in 60 seconds or less.[6] Furthermore, consumers facing emergency situations have little time to reflect on their product choices and whether they will make the right decision. Consumers may also devote less time and effort to the buying process if they are uncomfortable. For this reason, sit-down restaurants should be inviting and relaxing to encourage longer visits and add-ons such as dessert or coffee after the meal.

Other situational influences can affect specific product choices. For example, if you have your boss over for dinner, your product choices would likely differ from those you make in everyday purchases of food and drink. Likewise, customers may purchase more expensive items for gifts, or when they shop with friends. Product choices also change when customers make the purchase for someone else, such as buying clothing for children. In fact, many parents will purposely buy less expensive clothing for their children if they are growing rapidly or are exceptionally active. These parents want to save money on clothing that will quickly wear out or become too small.

BUYER BEHAVIOR IN BUSINESS MARKETS

As we shift our attention to buyer behavior in business markets, keep in mind that business markets and consumer markets have many things in common. Both contain buyers and sellers who seek to make good purchases and satisfy their personal or

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organizational objectives. Both markets use similar buying processes that include stages associated with need identification, information search, and product evaluation. Finally, both processes focus on customer satisfaction as the desired outcome. However, business markets differ from consumer markets in important ways. One of the most important differences involves the consumption of the purchased products. Consumers buy products for their personal use or consumption. In contrast, organizational buyers purchase products for use in their operations. These uses can be direct, as in acquiring raw materials to produce finished goods, or indirect, as in buying office supplies or leasing cars for salespeople. There are four types of business markets:

- **Commercial Markets**. These markets buy raw materials for use in producing finished goods, and they buy facilitating goods and services used in the production of finished goods. Commercial markets include a variety of industries, such as aerospace, agriculture, mining, construction, transportation, communication, and utilities.
- **Reseller Markets**. These markets consist of channel intermediaries such as wholesalers, retailers, or brokers that buy finished goods from the producer market and resell them at a profit. As we will see in Chapter 6, channel intermediaries have the responsibility for creating the variety and assortment of products offered to consumers. Therefore, they wield a great deal of power in the supply chain.
- **Government Markets**. These markets include federal, state, county, city, and local governments. Governments buy a wide range of finished goods ranging from aircraft carriers to fire trucks to office equipment. However, most government purchases are for the services provided to citizens, such as education, fire and police protection, maintenance and repair of roads, and water and sewage treatment.
- **Institutional Markets**. These markets consist of a diverse group of noncommercial organizations such as churches, charities, schools, hospitals, or professional organizations. These organizations primarily buy finished goods that facilitate their ongoing operations.

Unique Characteristics of Business Markets

Business markets differ from consumer markets in at least four ways. These differences concern the nature of the decision-making unit, the role of hard and soft costs in making and evaluating purchase decisions, reciprocal buying relationships, and the dependence of the two parties on each other. As a general rule, these differences are more acute for firms attempting to build long-term client relationships. In business markets, buying needed products at the lowest possible price is not necessarily the most important objective. Since many business transactions are based on long-term relationships, trust, reliability, and overall goal attainment are often much more important than the price of the product.

The Buying Center

The first key difference relates to the role of the **buying center**—the group of people responsible for making purchase decisions. In consumer markets, the buying center is fairly straightforward: The adult head-of-household tends to make most major purchase decisions for the family, with input and assistance from children and other family members as applicable. In an organization, however, the buying center tends to be much more complex and difficult to identify, in part because it may include three distinct groups of people—economic buyers, technical buyers, and users—each of which may have its own agenda and unique needs that affect the buying decision.

Any effort to build a relationship between the selling and buying organization must include economic buyers—those senior managers with the overall responsibility of achieving the buying firm's objectives. In recent years, economic buyers have

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become increasingly influential as price has become less important in determining a product's true value to the buying firm. This has made economic buyers a greater target for promotional activities. Technical buyers—employees with the responsibility of buying products to meet needs on an ongoing basis—include purchasing agents and materials managers. These buyers have the responsibility of narrowing the number of product options and delivering buying recommendations to the economic buyer(s) that are within budget. Technical buyers are critical in the execution of purchase transactions and are also important to the day-to-day maintenance of long-term relationships. Users—managers and employees who have the responsibility of using a product purchased by the firm—comprise the last group of people in the buying center. The user is often not the ultimate decision maker, but frequently has a place in the decision process, particularly in the case of technologically advanced products. For example, the head of information technology often has a major role in computer and IT purchase decisions.

Hard and Soft Costs

The second difference between business and consumer markets involves the significance of hard and soft costs. Consumers and organizations both consider **hard costs**, which include monetary price and associated purchase costs such as shipping and installation. Organizations, however, must also consider **soft costs**, such as downtime, opportunity costs, and human resource costs associated with the compatibility of systems, in the buying decision. The purchase and implementation of a new payroll system, for example, will decrease productivity and increase training costs in the payroll department until the new system has been fully integrated.

Reciprocity

The third key difference involves the existence of reciprocal buying relationships. With consumer purchases, the opportunity for buying and selling is usually a one-way street: The marketer sells and the consumer buys. Business marketing, however, is more often a two-way street, with each firm marketing products that the other firm buys. For example, a company may buy office supplies from another company that in turn buys copiers from the first firm. In fact, such arrangements can be an upfront condition of purchase in purely transaction-based marketing. Reciprocal buying is less likely to occur within long-term relationships unless it helps both parties achieve their respective goals.

Mutual Dependence

Finally, in business markets, the buyer and seller are more likely to be dependent on one another. For consumer–marketer relationships, this level of dependence tends to be low. If a store is out of a product, or a firm goes out of business, customers simply switch to another source to meet their needs. Likewise, the loss of a particular customer through brand switching, relocation, or death is unfortunate for a company, but not in itself particularly damaging. The only real exception to this norm is when consumers are loyal to a brand or merchant. In these cases, consumers become dependent on a single brand or merchant, and the firm can become dependent on the sales volume generated by these brand loyal consumers.

This is not the case in business markets where sole-source or limited-source buying may leave an organization's operations severely distressed when a supplier shuts down or cannot deliver. The same is true for the loss of a customer. The selling firm has invested significantly in the client relationship, often modifying products and altering information or other systems central to the organization. Each client relationship represents a significant portion of the firm's profit, and the loss of a single customer can take months or even years to replace. For example, after Rubbermaid's relationships with Walmart, Lowe's, and Home Depot soured in the mid-1990s, these

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retailers pulled Rubbermaid products from their shelves and turned to Sterilite, a small Massachusetts-based manufacturer, to supply plastic products (storage bins, containers, etc.) for their stores. Along with damaging Rubbermaid's reputation and profits, the considerable buying power of Walmart, Lowe's, and Home Depot turned Sterilite into a major competitor for Rubbermaid. Today, Sterilite is the world's largest independent manufacturer of plastic housewares in North America.[7]

The Business Buying Process

Like consumers, businesses follow a buying process. However, given the complexity, risk, and expense of many business purchases, business buyers tend to follow these stages in sequence. Some buying situations can be quite routine, such as the daily or weekly purchase and delivery of raw materials or the purchase of office consumables such as paper and toner cartridges. Nonetheless, business buyers often make even routine purchases from prequalified or single-source suppliers. Consequently, virtually all business purchases have gone through the following stages of the buying process at one time or another:

1. **Problem Recognition**. The recognition of needs can stem from a variety of internal and external sources, such as employees, members of the buying center, or outside salespeople. Business buyers often recognize needs due to special circumstances, such as when equipment or machinery breaks or malfunctions.
2. **Develop Product Specifications**. Detailed product specifications often define business purchases. This occurs because new purchases must be integrated with current technologies and processes. Developing product specifications is typically done by the buying center.
3. **Vendor Identification and Qualification**. Business buyers must ensure that potential vendors can deliver on needed product specifications, within a specified time frame, and in the needed quantities. Therefore, business buyers will conduct a thorough analysis of potential vendors to ensure they can meet their firm's needs. The buyers then qualify and approve the vendors that meet their criteria to supply goods and services to the firm.
4. **Solicitation of Proposals or Bids**. Depending on the purchase in question, the buying firm may request that qualified vendors submit proposals or bids. These proposals or bids will detail how the vendor will meet the buying firm's needs and fulfill the purchase criteria established during the second stage of the process.
5. **Vendor Selection**. The buying firm will select the vendor or vendors that can best meet its needs. The best vendor is not necessarily the one offering the lowest price. Other issues such as reputation, timeliness of delivery, guarantees, or personal relationships with the members of the buying center are often more important.
6. **Order Processing**. Often a behind-the-scenes process, order processing involves the details of processing the order, negotiating credit terms, setting firm delivery dates, and any final technical assistance needed to complete the purchase.
7. **Vendor Performance Review**. The final stage of the buying process involves a review of the vendor's performance. In some cases, the product may flawlessly fulfill the needed specifications, but the vendor's performance is poor. In this stage, both product and vendor specifications can be reevaluated and changed if necessary. In the end, the result of these evaluations will affect future purchase decisions.

Like consumer markets, there are a number of factors that can influence the business buying process. Environmental conditions can have a major influence on buyer behavior by increasing the uncertainty, complexity, and risk associated with

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a purchase. In situations of rapid environmental change, business buyers may alter their buying plans, postpone purchases, or even cancel purchases until things settle down. Environmental conditions not only affect the purchase of products, but also affect decisions regarding the recruitment and hiring of employees.

Organizational factors can also influence corporate buying decisions. These factors include conditions within the firm's internal environment (resources, strategies, policies, objectives), as well as the condition of relationships with business or supply chain partners. A shift in the firm's resources can change buying decisions, such as a temporary delay in purchasing until favorable credit terms can be arranged. Likewise, if a supplier suddenly cannot provide needed quantities of products or cannot meet a needed delivery schedule, the buying firm will be forced to identify and qualify new suppliers. Internal changes in information technology can also affect the buying process, such as when technicians integrate electronic procurement systems with the legacy systems of the firm and its vendors. Finally, interpersonal relationships and individual factors can affect the buying process. A common example occurs when members of the buying center are at odds over purchase decisions. Power struggles are not uncommon in business buying, and they can bring the entire process to a halt if not handled properly. Individual factors, such as a manager's personal preferences or prejudices, can also affect business buying decisions. The importance of interpersonal and individual factors depends on the specific buying situation and its importance to the firm's goals and objectives. Major purchases typically create the most conflict among members of the buying center.

MARKET SEGMENTATION

Understanding the processes that consumers and businesses use to make purchase decisions is critical to the development of long-term, mutually beneficial relationships with customers. It is also a necessary first step in uncovering similarities among groups of potential buyers that can be used in market segmentation and target marketing decisions. From a strategic perspective, we define **market segmentation** as the process of dividing the total market for a particular product or product category into relatively homogeneous segments or groups. To be effective, segmentation should create groups where the members within the group have similar likes, tastes, needs, wants, or preferences, but where the groups themselves are dissimilar from each other. As noted in Beyond the Pages 5.2, the increasing diversity of the U.S. population creates a number of challenges when it comes to segmenting markets.

In reality, the most fundamental segmentation decision is really whether to segment at all. When a firm makes the decision to pursue the entire market, it must do so on the basis of universal needs that all customers possess. However, most firms opt to target one or more segments of the total market because they find that they can be more successful when they tailor products to fit unique needs or requirements. In today's economy, segmentation is often mandated by customers due to their search for unique products and their changing uses of communication media. The end result is that customer segments have become even more fragmented and more difficult to reach. Many firms today take segmentation to the extreme by targeting small niches of a market, or even the smallest of market segments: individuals.

Traditional Market Segmentation Approaches

Many segmentation approaches are traditional in the sense that firms have used them successfully for decades. It is not our intention to depict these approaches as old or out-of-date, especially when compared to individualized segmentation strategies that we discuss later. In fact, many of today's most successful firms use these tried-and-true approaches. Some organizations actually use more than one type of segmentation, depending on the brand, product, or market in question.

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BEYOND THE PAGES 5.2

The Challenges of Targeting a Diverse Population[8]

Although there are obvious differences among the members of our population, many people are surprised to learn that the United States is more diverse than they would have realized. However, we should not be surprised. After all, the United States was founded as a melting pot of cultures. That pot of cultural differences creates many challenges and opportunities in finding and serving target markets. Consider the following statistics:

- Today, roughly one-third of the U.S. population is a minority. If these consumers were a separate country, they would be the 12th largest in the world. By 2045, approximately half of the U.S. population will be part of a minority group.
- Texas, California, Hawaii, New Mexico, and the District of Columbia now have "majority–minority" populations where more than 50 percent of the population is part of a minority group.
- Minority populations have a large middle-class with strong buying power. For instance, the combined buying power of minorities stands at $2 trillion today. Hispanics alone account for half of that, making the U.S. Hispanic population the 15th largest economy in the world.
- The defining characteristics of minority markets are not based on skin color or language. Instead, core values such as family, faith, nationalism, respect for the elderly and community leaders, and cultural institutions are the dominant features that define minority populations.
- Minority populations have stopped trying to "fit in" with traditional U.S. customs. Instead, these groups work hard to preserve their ethnic values and customs.
- Distinct minority populations have little in common with each other, other than their emotional connections to their own ethnic traditions.

Given these stark facts, it becomes clear that firms will have a hard time reaching a mass audience of U.S. consumers using a one-size-fits-all marketing approach. So, how can a firm reach across segments of society for maximum marketing effectiveness and efficiency? The truth is that most firms don't bother. Still, targeting specific minority groups has become more difficult. The tactics of yesterday—simple language translation, hiring diverse employees, or using photos of ethnic minorities in promotional images—won't work anymore.

Several companies have been singled out as having successful approaches to reaching the Hispanic market. McDonald's, for example, uses a consistent focus on Latino research to target Hispanic consumers. The company also employs three separate marketing directors for the Asian American, African American, and Hispanic markets. AT&T successfully expanded its branding among millennials by using Spanglish in its ads targeting Hispanic consumers. Toyota's marketing to Hispanics has been so successful that it has been the top-selling car brand among Hispanic consumers for over 10 years. The success has been based on hiring Hispanic executives to help establish deeper relationships in the Hispanic communities around the country.

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Mass Marketing

It seems odd to call mass marketing a segmentation approach, as it involves no segmentation whatsoever. Companies aim mass marketing campaigns at the total (whole) market for a particular product. Companies that adopt **mass marketing** take an undifferentiated approach that assumes that all customers in the market have similar needs and wants that can be reasonably satisfied with a single marketing program. This marketing program typically consists of a single product or brand (or, in the case of retailers, a homogeneous set of products), one price, one promotional program, and one distribution system. Duracell, for example, offers a collection of different battery sizes (D, C, A, AA, AAA, 9-volt), but they are all disposable batteries marketed to consumers for use in toys and small electronic devices. They also offer a

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line of rechargeable and ultra-power batteries for high-power devices. Likewise, the WD-40 Company offers an assortment of brands—including WD-40, 3-IN-ONE Oil, Lava Soap, 2000 Flushes, Carpet Fresh, and X14 Cleaner—used in a variety of household tasks.

Mass marketing works best when the needs of an entire market are relatively homogeneous. Good examples include commodities like oil and agricultural products. In reality, very few products or markets are ideal for mass marketing, if for no other reason than companies, wanting to reach new customers, often modify their product lines. For most of its existence, Vaseline manufactured and offered a single product. To reach new customers, Vaseline modified this strategy by launching its Intensive Care line of products and extending customers' perceptions of Vaseline's uses to various needs in the home, including in the garage/workshop. Furthermore, think of the many products that contain Arm & Hammer Baking Soda, a product that at one time was sold only as a baking ingredient.

Although mass marketing is advantageous in terms of production efficiency and lower marketing costs, it is inherently risky. By offering a standard product to all customers, the organization becomes vulnerable to competitors that offer specialized products that better match customers' needs. In industries where barriers to entry are low, mass marketing runs the risk of being seen as too generic. This situation is very inviting for competitors who use more targeted approaches. Mass marketing is also very risky in global markets, where even global brands like Coca-Cola must be adapted to match local tastes and customs.

Differentiated Marketing

Most firms use some form of market segmentation by (1) dividing the total market into groups of customers having relatively common or homogeneous needs, and (2) attempting to develop a marketing program that appeals to one or more of these groups. This approach may be necessary when customer needs are similar within a single group, but their needs differ across groups. Through well-designed and carefully conducted research, firms can identify the particular needs of each market segment to create marketing programs that best match those needs and expectations. Within the differentiated approach there are two options: the multisegment approach and the market concentration approach.

Firms using the **multisegment approach** seek to attract buyers in more than one market segment by offering a variety of products that appeal to different needs. Firms using this option can increase their share of the market by responding to the heterogeneous needs of different segments. If the segments have enough buying potential, and the product is successful, the resulting sales increases can more than offset the increased costs of offering multiple products and marketing programs. The multisegment approach is the most widely used segmentation strategy in medium- to large-sized firms. It is extremely common in packaged goods and grocery products. Maxwell House, for example, began by marketing one type of coffee and one brand. Today, this division of Kraft Foods offers 69 different flavor and package varieties under the Maxwell House brand alone. Kraft also markets coffee under the Sanka and Yuban labels, in addition to providing private label brands for retailers. A walk down the cereal aisle of your local supermarket offers additional examples. Firms such as Kellogg's and Nabisco offer seemingly hundreds of brands of breakfast cereals targeted at specific segments, including children (e.g., Fruity Pebbles, Apple Jacks), health-conscious adults (e.g., Shredded Wheat, Total), parents looking for healthier foods for their children (e.g., Life, Kix), and so on.

Firms using the **market concentration** approach focus on a single market segment. These firms often find it most efficient to seek a maximum share in one segment of the market. For example, Armor All markets a well-known line of automotive cleaners, protectants, and polishes targeted primarily to young, driving-age males.

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The main advantage of market concentration is specialization, as it allows the firm to focus all of its resources toward understanding and serving a single segment. Specialization is also the major disadvantage of this approach. By "putting all of its eggs in one basket," the firm can be vulnerable to changes in its market segment, such as economic downturns and demographic shifts. Still, the market concentration approach can be highly successful. In the arts, where market concentration is almost universal, musical groups hone their talents and plan their performances to satisfy the tastes of one market segment, divided by genres of music such as country, rock, or jazz.

Niche Marketing

Some companies narrow the market concentration approach even more and focus their marketing efforts on one small, well-defined market segment or **niche market** that has a unique, specific set of needs. Customers in niche markets will typically pay higher prices for products that match their specialized needs. One example of successful niche marketing is found in the gym industry. For example, Curves—a health club for women—has 10,000 locations in 90 countries around the world. Other niche gyms for children and the over-55 age group are popping up around the United States. The Little Gym—designed for kids ages 4 months through 12 years—has over 300 locations worldwide. The goal of these gyms is to create highly customized workout experiences for niche markets that don't fit the profile of a typical health club member.[9] As the gym industry has learned, the key to successful niche marketing is to understand and meet the needs of target customers so completely that, despite the small size of the niche, the firm's substantial share makes the segment highly profitable. An attractive market niche is one that has growth and profit potential, but is not so appealing that it attracts competitors. The firm should also possess a specialization or provide a unique offering that customers find highly desirable.

Individualized Segmentation Approaches

Due to advances in communication and Internet technology, individualized segmentation approaches have emerged. These approaches are possible because organizations now have the ability to track customers with a high degree of specificity. By combining demographic data with past and current purchasing behavior, organizations can tweak their marketing programs in ways that allow them to precisely match customers' needs, wants, and preferences. Three types of individualized segmentation approaches are one-to-one marketing, mass customization, and permission marketing.

One-to-One Marketing

When a company creates an entirely unique product or marketing program for each customer in the target segment, it employs **one-to-one marketing**. This approach is common in business markets where companies design unique programs and/or systems for each customer. For example, providers of enterprise software—such as Oracle, SAP, and Business Objects—create customized solutions that allow firms to track customers, business processes, and results in real time. Insurance companies or brokers, such as Britain's Sedgwick Group, design insurance and pension programs to meet a corporation's specific needs. The key to one-to-one marketing is personalization, where every element of the marketing program is customized to meet the specifics of a particular client's situation.

Historically, one-to-one marketing has been used less often in consumer markets, although Burger King was an early pioneer in this approach, with its "Have It Your Way" effort that continues today. One-to-one marketing is quite common in luxury and custom-made products, such as when a consumer buys a large sailboat, airplane, or a

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custom-built home. In such instances, the product has significant modifications made to it to meet unique customer needs and preferences. Many service firms—such as hairstylists, lawyers, doctors, and educational institutions—also customize their marketing programs to match individual consumer needs. One-to-one marketing has grown rapidly in electronic commerce where customers can be targeted very precisely. Amazon, for example, maintains complete profiles on customers who browse and buy from its site. These profiles assist Amazon with the customization of web pages in real time, product suggestions, and reminder e-mails sent to customers.

Mass Customization

An extension of one-to-one marketing, **mass customization** refers to providing unique products and solutions to individual customers on a mass scale. Along with the Internet, advances in supply chain management—including real-time inventory control—have allowed companies to customize products in ways that are both cost-effective and practical. For example, Dell builds thousands of custom-ordered computers every day. Each customer gets to choose from a variety of options (storage, screen sizes, colors, etc.) to configure a computer as they want it. Dell gets to take advantage of scale economies because it builds thousands of the same basic computer for its other customers. Other firms that use mass customization include 1-800-Flowers.com (custom flower arrangements, plants, or other gifts) and Build-A-Bear Workshop (custom teddy bears or other animals).

Mass customization also occurs in business markets. Through a buying firm's electronic procurement system, employees can order products ranging from office supplies to travel services. The system allows employees to requisition goods and services via a customized catalog—unique to the firm—where the buying firm has negotiated the products and prices. E-procurement systems like these have become quite popular for good reason: They allow firms to save a great deal of money—not only on prices but also on the costs of placing orders. Selling firms benefit as well by customizing their catalogs to specific buying firms, allowing them to sell more goods and services at a reduced cost.

Permission Marketing

Permission marketing, although similar to one-to-one marketing, is different in that customers choose to become part of a firm's market segment. In **permission marketing**, customers give companies permission to specifically target them in their marketing efforts. The most common tool used in permission marketing is the opt-in e-mail list, where customers permit a firm—or a third-party partner of the firm—to send periodic e-mail about goods and services that they have interest in purchasing. This scenario is ubiquitous in business-to-consumer e-commerce, so much so that many consumers fail to notice it. When customers order products online, they receive the option of receiving or not receiving future e-mail notifications about new products. In many cases, the customer must deselect a box at the end of the order form or they will be added to the e-mail list.

Permission marketing has a major advantage over other individualized segmentation approaches: Customers who opt-in have already shown interest in the goods and services offered by the firm. This allows the firm to precisely target only those individuals with an interest in their products, thereby eliminating wasted marketing effort and expense. For example, many airlines have the permission of their customers to send weekly e-mail notices of airfare and other travel-related specials. This system is in stark contrast to traditional mass media advertising where only a portion of the viewing or reading audience has a real interest in the company's product.

One-to-one marketing, mass customization, and permission marketing will become even more important in the future because their focus on individual

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customers makes them critical to the development and maintenance of long-term relationships. The simple truth is that customers will maintain relationships with firms that best fulfill their needs or solve their problems. Unfortunately, individualized segmentation approaches can be prohibitively expensive. To make these approaches viable, firms must be mindful of two important issues. First, the delivery of the marketing program must be automated to a degree that makes it cost efficient. The Internet makes this possible by allowing for individual customization in real time. Second, the marketing program must not become so automated that the offering lacks personalization. Today, personalization means much more than simply calling customers by name. We use the term to describe the idea of giving customers choices—not only in terms of product configuration, but also in terms of the entire marketing program. Firms like Dell and Amazon offer a great deal of personalization by effectively mining their customer databases. Customers can choose payment terms, shipping terms, delivery locations, gift-wrapping, and whether to opt-in to future e-mail promotions. Also, by monitoring click stream data in real time, the best e-commerce firms can offer product suggestions on the fly—while customers visit their sites. This sort of customized point-of-sale information not only increases sales, but also better fulfills customers' needs and increases the likelihood of establishing long-term customer relationships.

Criteria for Successful Segmentation

It is important to remember that not all segmentation approaches or their resulting market segments are viable in a marketing sense. For example, it makes little sense to segment the soft drink market based on eye color or shoe size, as these characteristics have nothing to do with the purchase of soft drinks. Although markets can be segmented in limitless ways, the segmentation approach must make sense in terms of at least five related criteria:

- **Identifiable and Measurable**. The characteristics of the segment's members must be easily identifiable. This allows the firm to measure identifying characteristics, including the segment's size and purchasing power.
- **Substantial**. The segment must be large and profitable enough to make it worthwhile for the firm. The profit potential must be greater than the costs involved in creating a marketing program specifically for the segment.
- **Accessible**. The segment must be accessible in terms of communication (advertising, mail, telephone, etc.) and distribution (channels, merchants, retail outlets, etc.).
- **Responsive**. The segment must respond to the firm's marketing efforts, including changes to the marketing program over time. The segment must also respond differently than other segments.
- **Viable and Sustainable**. The segment must meet the basic criteria for exchange, including being ready, willing, and able to conduct business with the firm. The segment must also be sustainable over time to allow the firm to effectively develop a marketing strategy for serving the needs of the segment.

It is possible for a market segment to meet these criteria, yet still not be viable in a business sense. Markets for many illegal products, such as illicit drugs or pornography, can easily meet these criteria. However, ethical and socially responsible firms would not pursue these markets. Other markets, such as gaming or gambling, may be legal in some geographical areas, but are often not in the best interests of the firm. More commonly, firms will identify perfectly viable market segments; however, these segments will rest outside of the firm's expertise or mission. Just because a market segment is viable or highly profitable does not mean the firm should pursue it.

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IDENTIFYING MARKET SEGMENTS

A firm's segmentation strategy and its choice of one or more target markets depend on its ability to identify the characteristics of buyers within those markets. This involves selecting the most relevant variables to identify and define the target market or markets. Many of these variables, including demographics, lifestyles, product usage, or firm size, derive from the situation analysis section of the marketing plan. However, a new or revised marketing strategy often requires changes in target market definition to correct problems in the previous marketing strategy. Target markets also shift in response to required changes in specific elements of the marketing program, such as reducing price to enhance value, increasing price to connote higher quality, adding a new product feature to make the benefits more meaningful, or selling through retail stores instead of direct distribution to add the convenience of immediate availability. In short, the target market and the marketing program are interdependent, and changes in one typically require changes in the other. Beyond the Pages 5.3 outlines how major cereal companies have addressed changing customers' demands in the cereal market.

Segmenting Consumer Markets

The goal in segmenting consumer markets is to isolate individual characteristics that distinguish one or more segments from the total market. The key is to segment the total market into groups with relatively homogeneous needs. As you may recall from our earlier discussion, consumers buy products because the benefits they provide can fulfill specific needs or wants. The difficulty in segmenting consumer markets lies in isolating one or more characteristics that closely align with these needs and wants. For example, marketers of soft drinks do not necessarily concern themselves with the age or gender of their customers, but rather in how age and gender relate to customers' needs, attitudes, preferences, and lifestyles.

In the discussion that follows, we look more closely at segmentation in consumer markets by examining the different factors that can be used to divide these markets into homogeneous groupings. As Exhibit 5.3 illustrates, these factors fall into one of four general categories: behavioral segmentation, demographic segmentation, psychographic segmentation, and geographic segmentation.

Behavioral Segmentation

Behavioral segmentation is the most powerful approach because it uses actual consumer behavior or product usage to make distinctions among market segments. Typically, these distinctions are tied to the reasons that customers buy and use products. Consequently, behavioral segmentation, unlike other types of consumer segmentation, is most closely associated with consumers' needs. A common use of behavioral segmentation is to group consumers based on their extent of product usage—heavy, medium, and light users. Heavy users are a firm's bread-and-butter customers, and they should always be served well. Marketers often use strategies to increase product usage among light users, as well as nonusers of the product or brand. One of the best uses of behavioral segmentation is to create market segments based on specific consumer benefits. Exhibit 5.4 illustrates how benefit segmentation might be applied in the snack food market. Once different benefit segments have been identified, marketers can conduct research to develop profiles of the consumers in each segment.

Behavioral segmentation is a powerful tool; however, it is also quite difficult to execute in practice. Conducting research to identify behavioral segments is quite expensive and time consuming. Also, the personal characteristics associated with behavioral segments are not always clear. For example, although some consumers buy a new car solely for transportation, most buy specific makes and models for other reasons. Some consumers want cars that are sporty, fun to drive, and that

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BEYOND THE PAGES 5.3

Shifting Strategies in the Cereal Market[10]

Cereal has long been thought of as a healthy breakfast. Yet in terms of sugar, parents might as well feed their children a cookie to start their day. Some sugary cereals are as much as 50 percent sugar. Kellogg's Honey Smacks, for example, contains 15 grams of sugar per serving, which is 3 grams more than in a glazed donut. In spite of their poor nutritional profiles, it is often the sweetest cereals that are targeted toward children. In response, many upset parents filed lawsuits against cereal companies. In order to deal with the backlash and to gain a competitive advantage, companies like Kellogg's have worked to reformulate and reposition their cereals as healthy breakfast choices.

Cereal companies began specifically marketing to children in the 1950s, the same decade in which sugar became a common additive in cereal. As one might imagine, kids gravitated toward these sugary sweets. Cereal companies also introduced cartoon characters to get kids interested in their brands. Tony the Tiger and Tricks, the Trix Rabbit, became beloved child icons. Companies also began placing free toys into cereal boxes. These marketing ploys worked; children craved these fun cereals, making sugary cereals a popular item on the breakfast table for decades.

In a string of lawsuits filed over the past 20 years, consumers have argued that cereal companies, such as Kellogg's and General Mills, engage in deceptive advertising regarding nutritional information and in making exaggerated claims about physical strength, happiness, or even magical powers. Today, cereal companies have reworked their advertising and most have stopped co-branding their products with well-known cartoon characters. Other lawsuits have focused on nutritional content or labeling, such as a suit filed against Kellogg's Froot Loops by a woman who was upset that the cereal did not actually contain fruit.

In response to these concerns, Kellogg's took a proactive stance to shift its marketing strategy. The company stopped advertising cereals that do not meet the Institute of Medicine and World Health Organization's health guidelines for cereal. No longer will you find a Kellogg's cereal advertised if it contains over 12 grams of sugar or 200 calories per serving. The company also created guidelines advising consumers to eat sugary cereals in moderation. Other sugary cereals shifted to more health-conscious appeals with claims that they contain essential vitamins and minerals. A few brands, such as Frosted Flakes, introduced reduced sugar versions. In recent years, more nutritious cereals like Special K and the Kashi brand have become popular, although these cereals will never hold the same cache with children as Lucky Charms or Fruity Pebbles. Many major cereal companies are going further to respond to criticisms by listing health benefits prominently on cereal labels. However, even health benefits can land a company in hot water. Kellogg's, for example, was fined $4 million by the FTC for misleading claims that its Frosted Mini-Wheats would improve kids' attentiveness, memory, and other cognitive functions.

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enhance their image. The problem lies in identifying the characteristics of these consumers. Are they older or younger, men or women, single or married, and do they live in urban or suburban areas? In some cases, consumer characteristics are easy to identify. Families purchase minivans because they want more room for their children and cargo. Older consumers tend to opt for comfortable and luxurious models. The key to successful behavioral segmentation is to clearly understand the basic needs and benefits sought by different consumer groups. Then this information can be combined with demographic, psychographic, and geographic segmentation to create complete consumer profiles.

Demographic Segmentation

Demographic segmentation divides markets into segments using demographic factors such as gender (e.g., Secret deodorant for women), age (e.g., Abercrombie & Fitch

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EXHIBIT 5.3 Common Segmentation Variables Used in Consumer Markets.

Category	Variables	Examples
Behavioral Segmentation	Benefits sought	Quality, value, taste, image enhancement, beauty, sportiness, speed, excitement, entertainment, nutrition, convenience
	Product usage	Heavy, medium, and light users; nonusers; former users; first-time users
	Occasions or situations	Emergencies, celebrations, birthdays, anniversaries, weddings, births, funerals, graduation
	Price sensitivity	Price sensitive, value conscious, status conscious (not price sensitive)
Demographic Segmentation	Age	Newborns, 0–5, 6–12, 13–17, 18–25, 26–34, 35–49, 50–64, 65+
	Gender	Male, female
	Income	Under $15,000, $15,000–$30,000, $30,000–$50,000, $50,000–$75,000, $75,000–$100,000, over $100,000
	Occupation	Blue collar, white collar, technical, professional, managers, laborers, retired, homemakers, unemployed
	Education	High school graduate, some college, college graduate, graduate degree
	Family life cycle	Single, married no children, married with young children, married with teenage children, married with grown children, divorced, widowed
	Generation	Generation Y, Generation X, baby boomers, seniors
	Ethnicity	Caucasian, African American, Hispanic, Asian
	Religion	Protestant, Catholic, Muslim, Hindu
	Nationality	American, European, Japanese, Australian, Korean
	Social class	Upper class, middle class, lower class, working class, poverty level
Psychographic Segmentation	Personality	Outgoing, shy, compulsive, individualistic, materialistic, civic minded, anxious, controlled, venturesome
	Lifestyle	Outdoor enthusiast, sports-minded, homebody, couch potato, family-centered, workaholic
	Motives	Safety, status, relaxation, convenience
Geographic Segmentation	Regional	Northeast, Southeast, Midwest, New England, Southern France, South Africa
	City/county size	Under 50,000; 50,000–100,000; 100,000–250,000; 250,000–500,000; 500,000–1,000,000, over 1,000,000
	Population density	Urban, suburban, rural

clothing for teens and young adults), income (e.g., Lexus automobiles for wealthy consumers), and education (e.g., online executive MBA programs for busy professionals). Demographic segmentation tends to be the most widely used basis for segmenting consumer markets because demographic information is widely available and relatively easy to measure. In fact, much of this information is easily obtainable during the situation analysis through secondary sources.

Some demographic characteristics are often associated with true differences in needs that can be used to segment markets. In these cases, the connection between demographics, needs, and desired product benefits can make demographic segmentation quite easy. For example, men and women have clearly different needs with respect to clothing and health care. Large families with children have a greater need for life insurance, laundry detergent, and food. Children prefer sweeter-tasting food and beverages than do adults. Unfortunately, demographic segmentation becomes less useful when the firm has a strong interest in understanding the motives

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EXHIBIT 5.4 Benefit Segmentation of the Snack Food Market.

	Nutritional Snackers	Weight Watchers	Guilty Snackers	Party Snackers	Indiscriminant Snackers	Economical Snackers
Benefits Sought	Nutritious, all-natural ingredients	Low calorie, quick energy	Low calorie, good tasting	Can be served to guests, goes well with beverages	Good tasting, satisfies hunger cravings	Low price, best value
Types of Snacks Eaten	Fruits, vegetables, cheeses	Yogurt, vegetables	Yogurt, cookies, crackers, candy	Potato chips, nuts, crackers, pretzels	Candy, ice cream, cookies, potato chips, pretzels, popcorn	No specific products
Snack Consumption Level	Light	Light	Heavy	Average	Heavy	Average
Percentage of Snackers	23%	15%	10%	16%	16%	19%
Demographic Characteristics	Better educated, have young children	Younger, single	Less educated, lower incomes	Middle aged, suburban	Teens	Better educated, larger families
Psychographic Characteristics	Self-assured, controlled	Outdoorsy, influential, venturesome	Anxious, isolated	Sociable, outgoing	Hedonistic, time deprived	Self-assured, price sensitive

SOURCE: Adapted from Charles W. Lamb, Jr., Joseph F. Hair, Jr., and Carl McDaniel, *Marketing*, 7th ed. (Mason, OH: Cengage Learning, 2004), p. 224.

or values that drive buying behavior. Often, the motives and values that drive actual purchases do not necessarily have anything to do with demographics. For example, how would you describe the demographic characteristics of a price sensitive, value-conscious consumer? Before you answer, remember that Walmart customers come from all walks of life. Likewise, how would you describe the demographics of an adventuresome, outdoor-oriented consumer? When Honda first introduced its Element utility vehicle, the company targeted adventuresome, high school and college-aged consumers. To its surprise, Honda quickly discovered that the Element was just as popular with 30- and 40-somethings who used it to haul kids and groceries. The problem in understanding consumer motives and values is that these variables depend more on what consumers *think and feel* rather than whom they are. Delving into consumer thoughts and feelings is the subject of psychographic segmentation.

Psychographic Segmentation

Psychographic segmentation deals with state-of-mind issues such as motives, attitudes, opinions, values, lifestyles, interests, and personality. These issues are more difficult to measure, and often require primary marketing research to properly determine the makeup and size of various market segments. Once the firm identifies one or more psychographic segments, they can be combined with demographic, geographic, or behavioral segmentation to create fully developed consumer profiles.

One of the most successful and well-known tools of psychographic segmentation is VALS, developed by Strategic Business Insights.[11] VALS, which stands for "values and lifestyles," divides adult U.S. consumers into one of eight profiles based on their level of resources and one of three primary consumption motives: ideals (knowledge and principles), achievement (demonstrating success to others), or self-expression (social or physical activity, variety, and risk taking). Exhibit 5.5 describes the eight

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EXHIBIT 5.5 VALS Profiles of U.S. Consumers.

Innovators

These consumers have abundant resources and high self-esteem. Innovators are successful, sophisticated consumers who have a taste for upscale, innovative, and specialized goods and services. Innovators are concerned about image as an expression of self, but not as an expression of status or power.

Example products: fine wines, upscale home furnishings, lawn maintenance services, recent technology, luxury automobiles

Thinkers

Thinkers are well-educated consumers who value order, knowledge, and responsibility. These consumers like to be as well informed about the products they buy as they are about world and national events. Although Thinkers have resources that give them many choices or options, they tend to be conservative consumers who look for practicality, durability, functionality, and value.

Example products: news and information services, low-emission vehicles, conservative homes and home furnishings

Achievers

The lifestyle of an Achiever is focused and structured around family, a place of worship, and career. Achievers are conventional, conservative, and respect authority and the status quo. These individuals are very active consumers who desire established, prestigious products and services that demonstrate their success. Achievers lead busy lives; hence, they value products that can save them time and effort.

Example products: SUVs, family vacations, products that promote career enhancement, online shopping, swimming pools

Experiencers

Experiencers are young, enthusiastic, and impulsive consumers who are motivated by self-expression. These consumers emphasize variety, excitement, the offbeat, and the risky. Experiencers enjoy looking good and buying “cool” products.

Example products: fashion, entertainment, sports/exercise, outdoor recreation and social activities

Believers

Believers are conservative, conventional consumers who hold steadfast beliefs based on traditional values related to family, religion, community, and patriotism. These consumers are predictable in that they follow established routines centered on family, community, or organizational membership. Believers prefer familiar and well-known American brands and tend to be very loyal customers.

Example products: membership in social, religious, or fraternal organizations; American made products; charitable organizations

Strivers

Strivers are motivated by achievement, yet they lack the resources to meet all their desires. As a group, Strivers are trendy, fun loving, and concerned with the opinions and approval of others. These consumers see shopping as a social activity and an opportunity to demonstrate their purchasing power up to the limits imposed by their financial situations. Most Strivers think of themselves as having jobs rather than careers.

Example products: stylish products, impulse items, credit cards, designer “knock-offs,” shopping as entertainment

Makers

Makers, like Experiencers, are motivated by self-expression. However, these consumers experience the world by engaging in many do-it-yourself activities such as repairing their own cars, building houses, or growing and canning their own vegetables. Makers are practical consumers who value self-sufficiency and have the skills to back it up. Makers are also unimpressed by material possessions, new ideas, or big business. They live traditional lives and prefer to buy basic items.

Example products: Auto parts, home-improvement supplies, gardening supplies, sewing supplies, discount retailers

Survivors

Survivors live narrowly focused lives and have few resources with which to cope. They are primarily concerned with safety, security, and meeting needs rather than fulfilling wants. As a group, Survivors are cautious consumers who represent a fairly small market for most products. They are loyal to favorite brands, especially if they can buy them on sale.

Example products: Basic necessities and staples; old, established brands

SOURCE: Strategic Business Insights, http://www.strategicbusinessinsights.com/vals/ustypes.shtml, accessed March 1, 2015.

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VALS profiles. Many companies use VALS in a variety of marketing activities including new product development, product positioning, brand development, promotional strategy, and media placement. There is also a geographic version of VALS, called GeoVALS, which links each consumer profile with geographic information such as ZIP codes. This tool is quite useful in direct marketing campaigns and retail site selection.

Psychographic segmentation is useful because it transcends purely descriptive characteristics to help explain personal motives, attitudes, emotions, and lifestyles directly connected to buying behavior. For example, companies such as Michelin and State Farm appeal to consumers motivated by issues such as safety, security, and protection when buying tires or insurance. Other firms, such as Subaru, Kia, and Hyundai, appeal to consumers whose values and opinions about transportation focus more on economy than status. Online degree programs appeal to consumers whose active lifestyles do not allow them to attend classes in the traditional sense.

Geographic Segmentation

Geographic characteristics often play a large part in developing market segments. For example, firms often find that their customers are geographically concentrated. Even ubiquitous products like Coca-Cola sell better in the southern United States than in other parts of the country. Consumer preferences for certain purchases based on geography are a primary consideration in developing trade areas for retailers such as grocery stores, gas stations, and dry cleaners. For example, **geodemographic segmentation**, or geoclustering, is an approach that looks at neighborhood profiles based on demographic, geographic, and lifestyle segmentation variables. One of the best-known geoclustering tools is Nielsen's PRIZM segmentation system, which classifies every neighborhood in the United States into one of 66 different demographic and behavioral clusters. The "Big Fish, Small Pond" cluster contains older, upper-class, highly educated professionals who enjoy success. The adults in this cluster are typically 55+ years old, empty-nesting couples with a median household income of almost $89,000. They are prime targets for financial services, upscale cars, and charitable causes. PRIZM is useful to marketers because it allows them to focus their marketing programs only in areas where their products are more likely to be accepted. Not only does this make their marketing activities more successful, it also greatly reduces marketing expenditures.[12]

Segmenting Business Markets

One of the most basic methods of segmenting business markets involves the four types of markets we discussed earlier in the chapter: commercial markets, reseller markets, government markets, and institutional markets. Marketers may focus on one or more of these markets, as each has different requirements. However, even within one type of market, marketers will discover that buying firms have unique and varying characteristics. In these cases, further segmentation using additional variables might be needed to further refine the needs and characteristics of business customers. For example, Canon sells a line of wide format printers aimed at CAD and architectural design users, as well as other segments such as fine art, photography, office, and signage. Each segment has different uses for wide format printing, as well as different requirements with respect to the types of inks used in the printers. In addition to the types of business markets, firms can also segment business buyers with respect to:

- **Type of Organization**. Different types of organizations may require different and specific marketing programs, such as product modifications, different distribution and delivery structures, or different selling strategies. A glass manufacturer, for example, might segment customers into several groups, such as car

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manufacturers, furniture makers, window manufacturers, or repair and maintenance contractors.

- **Organizational Characteristics**. The needs of business buyers often vary based on their size, geographic location, or product usage. Large buyers often command price discounts and structural relationships that are appropriate for their volume of purchases. Likewise, buyers in different parts of the country, as well as in different nations, may have varying product requirements, specifications, or distribution arrangements. Product usage is also important. Computer manufacturers often segment markets based on how their products will be used. For example, K-12 educational institutions have different requirements for computers and software than do major research universities.
- **Benefits Sought or Buying Processes**. Organizations differ with respect to the benefits they seek and the buying processes they use to acquire products. Some business buyers seek only the lowest cost provider, while others require extensive product support and service. Additionally, some businesses buy using highly structured processes, most likely through their buying center. Others may use online auctions or even highly informal processes.
- **Personal and Psychological Characteristics**. The personal characteristics of the buyers themselves often play a role in segmentation decisions. Buyers will vary according to risk tolerance, buying influence, job responsibilities, and decision styles.
- **Relationship Intensity**. Business markets can also be segmented based on the strength and longevity of the relationship with the firm. Many organizations structure their selling organization using this approach with one person or team dedicated to the most critical relationships. Other members of the selling organization may be involved in business development strategies to seek out new customers.

As we have seen, segmentation in business markets addresses many of the same issues found in consumer markets. Despite some differences and additional considerations that must be addressed, the foundation remains the same. Marketers must understand the needs of their potential customers and how these needs differ across segments within the total market.

TARGET MARKETING STRATEGIES

Once the firm has completed segmenting a market, it must then evaluate each segment to determine its attractiveness and whether it offers opportunities that match the firm's capabilities and resources. Remember that just because a market segment meets all criteria for viability does not mean the firm should pursue it. Attractive segments might be dropped for several reasons, including a lack of resources, no synergy with the firm's mission, overwhelming competition in the segment, an impending technology shift, or ethical and legal concerns over targeting a particular segment. Based on its analysis of each segment, the firm's current and anticipated situation, and a comprehensive SWOT analysis, a firm might consider five basic strategies for target market selection. Exhibit 5.6 depicts the following strategies.[13]

- **Single Segment Targeting**. Firms use **single segment targeting** when their capabilities are intrinsically tied to the needs of a specific market segment. Many consider the firms using this targeting strategy to be true specialists in a particular product category. Good examples include New Belgium Brewing (craft beer), Porsche, and Ray-Ban. These and other firms using single segment targeting are successful because they fully understand their customers' needs, preferences, and lifestyles. These firms also constantly strive to improve quality and customer

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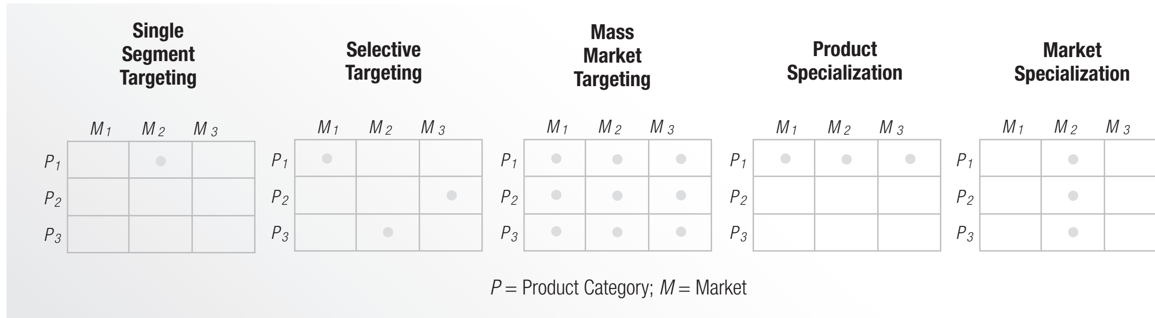
EXHIBIT 5.6 Basic Strategies for Target Market Selection.



satisfaction by continuously refining their products to meet changing customer preferences.

- **Selective Targeting**. Firms that have multiple capabilities in many different product categories use **selective targeting** successfully. This strategy has several advantages, including diversification of the firm's risk and the ability to cherry pick only the most attractive market segment opportunities. Procter & Gamble uses selective targeting to offer customers many different products in the fabric and home care, health and grooming, baby, feminine, and family care, and beauty, hair, and personal care markets. Besides the familiar deodorants, laundry detergents, and hair care products, P&G also sells products in the cosmetics, cologne, and prescription drug markets. One of the keys to P&G's success is that the company does not try to be all things for all customers. The company carefully selects product/market combinations where its capabilities match customers' needs.
- **Mass Market Targeting**. Only the largest firms have the capability to execute **mass market targeting**, which involves the development of multiple marketing programs to serve all customer segments simultaneously. For example, Coca-Cola offers roughly 500 branded beverages across many segments that fulfill different consumer needs in over 200 countries around the world. Likewise, Frito-Lay sells hundreds of different varieties of snack foods around the world.
- **Product Specialization**. Firms engage in **product specialization** when their expertise in a product category can be leveraged across many different market segments. These firms can adapt product specifications to match the different needs of individual customer groups. For example, many consider Littmann Stethoscopes, a division of 3M, as the worldwide leader in auscultation technology. Littmann offers high-performance electronic stethoscopes for cardiologists, specially designed stethoscopes for pediatric/infant use, lightweight stethoscopes for simple physical assessment, and a line of stethoscopes for nursing and medical students. The company also offers a line of veterinary stethoscopes.[14]
- **Market Specialization**. Firms engage in **market specialization** when their intimate knowledge and expertise in one market allows them to offer customized marketing programs that not only deliver needed products, but also provide needed solutions to customers' problems. The Follett Corporation is a prime example. Follett specializes in the education market and serves over half of the students in schools, colleges, and universities in the United States and Canada. The company's vision is based on "empowering education everywhere learning is happening."[15]

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In addition to targeting a subset of current customers within the product/market, firms can also take steps to target noncustomers. As we discussed in Chapter 3, there are many reasons why noncustomers do not purchase a firm's products. These reasons can include unique customer needs, better competing alternatives, high switching costs, lack of product awareness, or the existence of long-held assumptions about a product. For example, products associated with tooth whitening were at one time associated only with dentists. Consequently, consumers were hesitant to use these products due to the expense, effort, and anxiety involved. Oral care companies were able to break this tradition and reach out to noncustomers by developing high-quality, low-price, over-the-counter alternatives that were much easier to purchase. Today, these at-home tooth-whitening products—such as Procter & Gamble's Crest 3D White Whitestrips—are a $3 billion market in the United States.[16]

As this example illustrates, the key to targeting noncustomers lies in understanding the reasons why they do not buy, and then finding ways to remove these obstacles. Removing obstacles to purchase, whether they exist in product design, affordability, distribution convenience, or product awareness, is a major strategic issue in developing an effective marketing program. Over the next two chapters, we turn our attention to the important strategic issues involved in creating the marketing program, including branding and positioning the product offering.

LESSONS FROM CHAPTER 5

Buyer behavior in consumer markets:

- is often irrational and unpredictable as consumers often say one thing but do another.
- can progress through five stages: need recognition, information search, evaluation of alternatives, the purchase decision, and postpurchase evaluation.
- does not always follow these stages in sequence and may even skip stages en route to the purchase.
- may be characterized by loyalty where consumers simply purchase the same product that they bought last time.
- often involves a parallel sequence of activities associated with finding the most suitable merchant. That is, while consumers consider which product to buy, they also consider where they might buy it.
- may occur with only one merchant for a particular product category if the consumer is fiercely loyal to that merchant.

Keys to understanding consumer needs and wants:

- Defining needs as "necessities" has limitations because everyone has a different perspective on what constitutes a need.
- Needs occur when a consumer's current level of satisfaction does not equal the desired level of satisfaction.
- Wants are a consumer's desire for a specific product that will satisfy a need.
- The firm must always understand the basic needs fulfilled by its products. This understanding allows the firm to segment markets and create marketing programs that can translate consumer needs into wants for their specific products.
- Although some products and markets can be segmented on the basis of needs alone, most product categories are marketed on the basis of wants, not need fulfillment.
- Wants are not the same thing as demand, as demand occurs only when the consumer's ability and willingness to pay backs up a want for a specific product.

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The information search stage of the consumer buying process:

- can be passive—where the consumer becomes more attentive and receptive to information—or active—where the consumer engages in a more aggressive information search by seeking additional information.
- depends on a number of issues, including the degree of risk involved in the purchase, the amount of expertise or experience the consumer has with the product category, and the actual cost of the search in terms of time and money.
- culminates in an evoked set of suitable buying alternatives.

During the evaluation of alternatives:

- consumers essentially translate their needs into wants for specific products or brands.
- consumers evaluate products as bundles of attributes that have varying abilities to satisfy their needs.
- the priority of each consumer's choice criteria can change.
- marketers must ensure that their product is in the evoked set of potential alternatives by constantly reminding consumers of their company and its product offerings.

During the purchase stage of the buying process:

- it is important to remember that the intention to purchase and the actual act of buying are distinct concepts.
- the key issues for marketers are product availability and possession utility.

During postpurchase evaluation:

- the outcome of the buying process is linked to the development of long-term customer relationships. Marketers must closely follow customers' responses to monitor the product's performance and its ability to meet customers' expectations.
- consumers will experience one of four potential outcomes: delight, satisfaction, dissatisfaction, or cognitive dissonance.

Overall, the consumer buying process can be affected by:

- the complexity of the purchase and decision-making process.
- individual factors, such as age, life cycle, occupation, socioeconomic status, perceptions, motives, interests, attitudes, opinions, and lifestyles.
- social influences such as culture, subculture, social class, family, reference groups, and opinion leaders.
- situational influences, such as physical and spatial influences, social and interpersonal influences, time, purchase task or usage, and the consumer's disposition.

Business markets:

- purchase products for use in their operations, such as acquiring raw materials to produce finished goods or buying office supplies or leasing cars.
- consist of four types of buyers: commercial markets, reseller markets, government markets, and institutional markets.
- possess four unique characteristics not typically found in consumer markets:
  - the buying center: economic buyers, technical buyers, and users.
  - hard and soft costs: soft costs (downtime, opportunity costs, human resource costs) are just as important as hard costs (monetary price or purchase costs).
  - reciprocity: business buyers and sellers often buy products from each other.
  - mutual dependence: sole-source or limited-source buying makes both buying and selling firms mutually dependent.

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The business buying process:

- follows a well-defined sequence of stages, including (1) problem recognition, (2) development of product specifications, (3) vendor identification and qualification, (4) solicitation of proposals or bids, (5) vendor selection, (6) order processing, and (7) vendor performance review.
- can be affected by a number of factors, including environmental conditions, organizational factors, and interpersonal and individual factors.

Market segmentation:

- is the process of dividing the total market for a particular product or product category into relatively homogeneous segments or groups.
- should create groups where the members are similar to each other, but where the groups are dissimilar from each other.
- involves a fundamental decision of whether to segment at all.
- typically allows firms to be more successful due to the fact that they can tailor products to meet the needs or requirements of a particular market segment.

Traditional market segmentation approaches:

- have been used successfully for decades, are not out-of-date, and are used by many of today's most successful firms.
- are sometimes used in combination with newer approaches by the same firm, depending on the brand/product or market in question.

Mass marketing:

- involves no segmentation whatsoever as it is aimed at the total (whole) market for a particular product.
- is an undifferentiated approach that assumes that all customers in the market have similar needs and wants that can be reasonably satisfied with a single marketing program.
- works best when the needs of an entire market are relatively homogeneous.
- is advantageous in terms of production efficiency and lower marketing costs.
- is inherently risky because a standardized product is vulnerable to competitors that offer specialized products that better match customers' needs.

Differentiated marketing:

- involves dividing the total market into groups of customers having relatively common or homogeneous needs, and attempting to develop a marketing program that appeals to one or more of these groups.
- may be necessary when customer needs are similar within a single group but their needs differ across groups.
- involves two options: the multisegment approach and the market concentration approach.

Niche marketing:

- involves focusing marketing efforts on one small, well-defined market segment or niche that has a unique, specific set of needs.
- requires that firms understand and meet the needs of target customers so completely that, despite the small size of the niche, the firm's substantial share makes the segment highly profitable.

Individualized segmentation approaches:

- have become viable due to advances in technology, particularly communication technology and the Internet.
- are possible because organizations now have the ability to track customers with a high degree of specificity.

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- allow firms to combine demographic data with past and current purchasing behavior so they can tweak their marketing programs in ways that allow them to precisely match customers' needs, wants, and preferences.
- will become even more important in the future because their focus on individual customers makes them critical to the development and maintenance of long-term relationships.
- can be prohibitively expensive to deliver.
- depend on two important considerations: automated delivery of the marketing program and personalization.

One-to-one marketing:

- involves the creation of an entirely unique product or marketing program for each customer in the target segment.
- is common in business markets where unique programs and/or systems are designed for each customer.
- is growing rapidly in consumer markets, particularly in luxury and custom-made products, as well as in services and electronic commerce.

Mass customization:

- refers to providing unique products and solutions to individual customers on a mass scale.
- is now cost-effective and practical due to advances in supply chain management, including real-time inventory control.
- is used quite often in business markets, especially in electronic procurement systems.

Permission marketing:

- is different from one-to-one marketing because customers choose to become a member of the firm's target market.
- is commonly executed via the opt-in e-mail list, where customers permit a firm to send periodic e-mail about goods and services that they have an interest in purchasing.
- has a major advantage in that customers who opt-in are already interested in the goods and services offered by the firm.
- allows a firm to precisely target individuals, thereby eliminating the problem of wasted marketing effort and expense.

Successful segmentation:

- requires that market segments fulfill five related criteria: segments must be identifiable and measurable, substantial, accessible, responsive, and viable and sustainable.
- involves avoiding ethically and legally sensitive segments that are profitable but not viable in a business sense.
- involves avoiding potentially viable segments that do not match the firm's expertise or mission.

Identifying market segments:

- involves selecting the most relevant variables to identify and define the target market, many of which come from the situation analysis section of the marketing plan.
- involves the isolation of individual characteristics that distinguish one or more segments from the total market. These segments must have relatively homogeneous needs.
- in consumer markets involves the examination of factors that fall into one of four general categories:

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– behavioral segmentation—the most powerful approach because it uses actual consumer behavior or product usage that helps to make distinctions among market segments.
– demographic segmentation, which divides markets using factors such as gender, age, income, and education.
– psychographic segmentation, which deals with state-of-mind issues such as motives, attitudes, opinions, values, lifestyles, interests, and personality.
– geographic segmentation, which is often most useful when combined with other segmentation variables. One of the best examples is geodemographic segmentation, or geoclustering.

- in business markets is often based on type of market (commercial, reseller, government, or institutional) or on other characteristics such as type of organization, organizational characteristics, benefits sought or buying processes, personal or psychological characteristics, or relationship intensity.

Target marketing strategies:

- are based on an evaluation of the attractiveness of each segment and whether each offers opportunities that match the firm's capabilities and resources.
- include single segment targeting, selective targeting, mass market targeting, product specialization, and market specialization.
- should also consider issues related to noncustomers such as reasons why they do not buy and finding ways to remove obstacles to purchase.

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The Marketing Program

CHAPTER 6

INTRODUCTION

With a clearly defined target market in hand, the organization turns its attention toward developing a marketing program that will fulfill the target's needs and wants better than the competition. When we say **marketing program**, we are referring to the strategic combination of the four basic marketing mix elements: product, price, distribution, and promotion. Although each element is vitally important to the success of the marketing strategy, the product usually receives the most attention because it is most responsible for fulfilling the customers' needs and wants. However, since customers' needs and wants are multifaceted, we prefer to think of the outcome of the marketing program as a complete "offering" that consists of an array of physical (tangible), service (intangible), and symbolic (perceptual) attributes designed to satisfy customers' needs and wants. In other words, the best marketing strategy is likely to be one that combines the product, price, distribution, and promotion elements in a way that maximizes the tangible, intangible, and perceptual attributes of the complete offering.

Good marketing strategy considers all four elements of the marketing program and the offering rather than emphasizing a single element. We have noted throughout this text how most firms today compete in rather mature markets characterized by commoditization. In these cases, the core product (the element that satisfies the basic customer need) typically becomes incapable of differentiating the offering from those of the competition. Consequently, most organizations work to enhance the service and symbolic elements of their offerings by changing price, distribution, or promotion in order to stand out from the crowd. As described in Beyond the Pages 6.1, this makes marketing strategy even more challenging for the firm. It also requires that the marketing program be considered holistically rather than sequentially. This means that products must be designed with an eye toward how they will be priced, distributed, and promoted. It does a company no good to develop a standout product that is not price competitive, difficult to ship or store, and hard to convey in promotional messages. All four elements of the marketing program must be developed simultaneously.

In this chapter, we examine the four elements of the marketing program in more detail. Issues such as product design, affordability, distribution convenience, and product awareness are major considerations in developing an effective marketing program. Problems in any one area can create obstacles that customers may be unwilling to overlook as they search for the best offering that will fulfill their needs.

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BEYOND THE PAGES 6.1

Can Physical Books Save Barnes & Noble?[1]

Like many companies in the Internet economy, Barnes & Noble is at a crossroads. The largest U.S. bookstore chain made retailing history when it opened the first category–killer bookstore in the late 1980s. At that time, the store was five times the size of a typical bookstore. Customers flocked to the spacious and comfortable stores that offered a comprehensive inventory of books, music, and DVDs. Most of the stores also included a café where customers could have coffee, a snack, and enjoy a good book. Barnes & Noble had successfully converted the small, mall-based bookstore to a true destination for book-loving customers.

But that was in the 1980s and 1990s. As the Internet economy took off in the late 1990s and into the 2000s, Barnes & Noble was forced to move online. At the launch of Barnesandnoble.com in 1997, the company offered a staggering 1 million titles for immediate delivery, plus access to a nationwide network offering over 30 million listings from out-of-print, rare, and used book dealers. This move came at roughly the same time as the launch of an unusual online bookstore called Amazon.com. Amazon offered a limited selection and was a pure Internet-based company, so few people gave the company any chance of succeeding. Plus, Amazon was losing money. At the time, Barnes & Noble wasn't worried about Amazon because their book superstore concept was a huge success. And, everyone knew that book lovers preferred to browse in the store, sit in comfortable chairs, and enjoy a coffee. Didn't they?

Fast-forward to today and we all know that Amazon has been remarkably successful. So much so that other book retailers, namely Borders and Waldenbooks, have since closed. We also know that Amazon sells more e-books than physical books. E-readers such as Amazon's Kindle and Barnes & Noble's Nook (plus a variety of tablets like the iPad and Kindle Fire) are wildly popular among a variety of target customers, old and young. In addition, other competitors have entered the market. Apple, for example, offers e-books through its iBooks app on the iPad and iPhone. Google now offers free access to millions of public domain books. The rapid changes in the book retailing market have forced Barnes & Noble to adapt, and these changes now threaten the future of the once-dominant book retailer.

What can Barnes & Noble do to remain relevant and viable in this market? To answer that question, we need to look at the company's current marketing program:

- **Products**. Barnes & Noble competes in a highly commoditized product market. Books, whether offered in print or as e-books, are the same no matter where they are purchased. Barnes & Noble does have an advantage in the textbook market, but the differences between its selection and the selection at Amazon are disappearing fast. Amazon, on the other hand, offers a very broad selection of products ranging from electronics to beauty supplies. Barnes & Noble offers a much narrower variety of books, music, movies, and some toys. Both companies' e-readers are competitively matched in terms of features and benefits.
- **Pricing**. Given the commoditized nature of the market, price would be one logical place to compete against Amazon and other competitors. However, there is very little price differentiation in the book market. This is especially true with respect to e-books, where prices are roughly the same across multiple competitors.
- **Distribution**. Barnes & Noble has invested a lot of resources into its distribution system. However, Amazon is also no slouch at supply chain management. One area where Barnes & Noble has a distinct advantage is on college campuses. The company operates over 717 college bookstores serving over 4 million students and 250,000 faculty in all 50 states. The company's physical footprint also includes roughly 650 traditional Barnes & Noble stores that draw millions of customers annually. These stores are still destinations for true book lovers, something that Amazon cannot copy.
- **Promotion**. It is very hard to build a competitive advantage based on promotion alone, and neither Barnes & Noble nor Amazon stand out per se. Both have strong brands and positioning. Both also offer membership programs. However, Amazon's program—Amazon

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Prime—beats Barnes & Noble by a wide margin. For a $99 per year fee, Prime members get free two-day shipping on millions of products, free instant streaming of thousands of movies and television programs, and the ability to borrow one Kindle e-book each month. By contrast, Barnes & Noble's members get free shipping and small discounts on books and Nook e-readers.

It is clear that carving out a strong competitive advantage is difficult for any book retailer. Barnes & Noble has an edge in college campus distribution and a loyal customer following. Amazon, however, has an edge in terms of the total digital ecosystem and a loyal following of price-conscious customers. In some ways the two companies compete using different paradigms.

Although the company continues to lose ground in the digital book market to Amazon, Barnes & Noble's saving grace is likely to be its retail footprint, especially on college campuses. In the college market, Follett leads the way with 940 campus stores (to 717 for Barnes & Noble). However, since 53 percent of colleges and universities still operate their own stores, the market growth potential in the college market is very large. Barnes & Noble is partnering with these universities to create academic superstores that are much larger than a traditional Barnes & Noble store. These superstores often include larger cafes, more clothing, and stores-within-a-store such as Clinique or Apple. The college store side of Barnes & Noble is so successful that the company plans to spin it off into a separate business in late 2015.

PRODUCT STRATEGY

Of all the strategic decisions to be made in the marketing plan, the design, development, branding, and positioning of the product are perhaps the most critical. At the heart of every organization lies one or more products that define what the organization does and why it exists. As we stated in Chapter 1, the term "product" refers to something that buyers can acquire via exchange to satisfy a need or a want. This is a very broad definition that allows us to classify many different things as products: food, entertainment, information, people, places, ideas, etc. An organization's product offering is typically composed of many different elements—usually some combination of tangible goods, services, ideas, image, or even people. As we consider product decisions here, it is important to remember that product offerings in and of themselves have little value to customers. Rather, an offering's real value comes from its ability to deliver benefits that enhance a customer's situation or solve a customer's problems. For example, customers don't buy pest control; they buy a bug-free environment. Lexus customers don't buy a car; they buy luxury, status, comfort, and social appeal. Students who frequent a local nightclub are not thirsty; they want to fulfill their need for social interaction. Likewise, companies do not need computers; they need to store, retrieve, distribute, network, and analyze data and information. Marketers who keep their sights set on developing product offerings that truly meet the needs of the target market are more likely to be successful.

Strategic Issues in the Product Portfolio

Products fall into two general categories. Products used for personal use and enjoyment are called **consumer products**, while those purchased for resale, to make other products, or for use in a firm's operations are called **business products**. Exhibit 6.1 illustrates examples of each type of product category. Although the distinction may seem simplistic, it is important in a strategic sense because the type of product in question can influence its pricing, distribution, or promotion. For example, marketing strategy for consumer convenience products must maximize availability and ease of purchase—both important distribution considerations. The strategy associated with consumer shopping products often focuses more on differentiation through image and symbolic attributes—both important branding and promotion issues. Marketing strategies for raw materials are especially challenging because these products are

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EXHIBIT 6.1 Types of Consumer and Business Products.

	Type of Product	Examples
Consumer Products	**Convenience Products** Inexpensive, routinely purchased products that consumers spend little time and effort in acquiring.	Soft drinks Candy and gum Gasoline Dry cleaning
	Shopping Products Products that consumers will spend time and effort to obtain. Consumers shop different options to compare prices, features, and service.	Appliances Furniture Clothing Vacations
	Specialty Products Unique, one-of-a-kind products that consumers will spend considerable time, effort, and money to acquire.	Sports memorabilia Antiques Plastic surgery Luxury items
	Unsought Products Products that consumers are unaware of or a product that consumers do not consider purchasing until a need arises.	True innovations Repair services Emergency medicine Insurance
Business Products	**Raw Materials** Basic natural materials that become part of a finished product. They are purchased in very large quantities based on specifications or grades.	Iron ore Chemicals Agricultural products Wood pulp
	Component Parts Finished items that become part of a larger finished product. They are purchased based on specifications or industry standards.	Spark plugs Computer chips Pane glass Hard drives
	Process Materials Finished products that become unidentifiable upon their inclusion in the finished product.	Food additives Wood sealants Paint colorings
	Maintenance, Repair, and Operating Products Products that are used in business processes or operations but do not become part of the finished product.	Office supplies Janitorial services Building security Bathroom supplies
	Accessory Equipment Products that help facilitate production or operations but do not become part of the finished product.	Tools Office equipment Computers Furniture
	Installations Major purchases, typically of a physical nature, that are based on customized solutions including installation/construction, training, financing, maintenance, and repair.	Enterprise software Buildings Heat and air systems
	Business Services Intangible products that support business operations. These purchases often occur as a part of outsourcing decisions.	Legal services Accounting services Consulting Research services

SOURCE: This material is adapted from William M. Pride and O.C. Ferrell, *Marketing* (Mason, OH: Cengage Learning, 2010), pp. 285–289.

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commodities by definition. Here, conformance to exacting product specifications and low acquisition costs are the keys to effective strategy. Many business products are also characterized by derived demand, where the demand for the product is derived from, or dependent upon, the demand for other business or consumer products. For example, the demand for business products such as glass, steel, rubber, chrome, leather, and carpeting is dependent upon the demand for automobiles.

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It is very rare for a company to sell only one product. Most firms sell a variety of products to fulfill a variety of different needs. In general terms, the products sold by a firm can be described with respect to product lines and product mixes. A **product line** consists of a group of closely related product items. As shown in Exhibit 6.2, Procter & Gamble sells a number of famous brands in its Fabric and Home Care line, including Tide, Dawn, and Cascade. Most companies sell a variety of different product lines. The different product lines at General Motors carry well-known brand names like Corvette, Chevrolet, Cadillac, and Buick. Likewise, FedEx offers a number of logistics and supply chain services in its family of brands, such as FedEx Express, FedEx Ground, and FedEx Freight. A firm's **product mix** or **portfolio** is the total group of products offered by the company. For example, Procter & Gamble's entire product portfolio consists of Beauty, Hair, and Personal Care products; Baby, Feminine, and Family Care products; and Health and Grooming products in addition to the products in its Fabric and Home Care line.

Decisions regarding product lines and product mixes are important strategic considerations for most firms. One of these important decisions is the number of product lines to offer, referred to as the width or **variety** of the product mix. By offering a wide variety of product lines, the firm can diversify its risk across a portfolio of product offerings. Also, a wide product mix can be used to capitalize on the strength and reputation of the firm. Sony, for example, enjoys this advantage as it uses its name to stake out a strong position in electronics, music, and movies. The second important decision involves the depth of each product line. Sometimes called **assortment**, product line depth is an important marketing tool. Firms can attract a wide range of customers and market segments by offering a deep assortment of products in a specific line. Each brand or product in the assortment can be used to fulfill different customer needs. For example, Hilton, Inc. offers 12 different lodging brands—including Hilton, Hilton Garden Inn, Hampton Inn, Conrad, and Embassy Suites—that cater to different segments of the hospitality market.

Although offering a large portfolio of products can make the coordination of marketing activities more challenging and expensive, it also creates a number of important benefits:

- **Economies of Scale**. Offering many different product lines can create economies of scale in production, bulk buying, and promotion. Many firms advertise using an umbrella theme for all products in the line. Nike's "Just Do It" and Maxwell House's "Good to the Last Drop" are examples of this. The single theme covering the entire product line saves considerably on promotional expenses.

EXHIBIT 6.2 Procter & Gamble's Portfolio of Fabric and Home Care Products.

	Product Mix Width (Variety)				
	Dish Washing	Household Cleaners	Batteries	Laundry and Fabric Care	Paper Products
Product Mix Depth **(Assortment)**	Ariel Dawn Cascade	Mr. Clean Swiffer	Duracell*	Tide Cheer Bounce Gain Downy Dreft Era Febreze Bold Ace	Charmin

*At the time of publication, P&G planned to sell Duracell to Berkshire Hathaway for $4.7 billion.

SOURCE: From the Procter & Gamble website (http://www.pg.com/en_US/brands/global_fabric_home_care/index.shtml), accessed March 29, 2015.

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- **Package Uniformity**. When all packages in a product line have the same look and feel, customers can locate the firm's products more quickly. It also becomes easier for the firm to coordinate and integrate promotion and distribution. For example, Duracell batteries all have the same copper look with black and copper packaging.
- **Standardization**. Product lines often use the same component parts. For example, GM often shares components across its Buick, GM, and Chevrolet product lines. This greatly reduces GM's manufacturing and inventory handling costs.
- **Sales and Distribution Efficiency**. When a firm offers many different product lines, sales personnel can offer a full range of choices and options to customers. For the same reason, channel intermediaries are more accepting of a product line than they are of individual products.
- **Equivalent Quality Beliefs**. Customers typically expect and believe that all products in a product line are about equal in terms of quality and performance. This is a major advantage for a firm that offers a well-known and respected line of products. For example, Crest's portfolio of oral care products all enjoys the same reputation for high quality.

A firm's product portfolio must be carefully managed to reflect changes in customers' preferences and the introduction of competitive products. Product offerings may be modified to change one or more characteristics that enhance quality, style, or lower the product's price. Firms may introduce product line extensions that allow it to compete more broadly in an industry. The recent trend of flavored soft drinks, such as Vanilla Coke, Diet Pepsi Vanilla, and Dr. Pepper Cherry Vanilla, is a good example of this. Sometimes, a firm may decide that a product or product line has become obsolete or is just not competitive against other products. When this happens, the firm can decide to contract the product line, as GM did when it dropped its Pontiac, Saturn, and Hummer divisions.

The Challenges of Service Products

It is important to remember that products can be intangible services and ideas as well as tangible goods. Service firms such as airlines, hotels, hospitals, movie theaters, and hair stylists, as well as nonprofit organizations, charitable causes, and government agencies all develop and implement marketing strategies designed to match their portfolio of intangible products to the needs of target markets. Products lie on a continuum ranging from tangible-dominant goods (salt, soap) to intangible-dominant services (education, consulting). Firms lying closer to the intangible end of this spectrum face unique challenges in developing marketing strategy. These challenges are the direct result of the unique characteristics of services as shown in Exhibit 6.3. Obviously, the primary difference between a good and a service is that a service is intangible. Some services, such as business consulting and education, are almost completely intangible, while others have more tangible elements. The services provided by UPS and FedEx, for example, include tangible airplanes, trucks, boxes, and invoices. Another challenging characteristic of services is that they cannot be stored for future use. This lack of inventory means that service firms experience major problems in balancing service supply (capacity) and service demand. Likewise, the demand for services is extremely time-and-place dependent because customers must typically be present for service to be delivered. Consider the issues faced by popular restaurants every Friday and Saturday night. The increased demand forces restaurant managers to pre-schedule the right amount of food ingredients and employees to accommodate the increase in guests. And, given that the restaurant's capacity is fixed, the manager and employees must serve guests efficiently and effectively in a crowded, noisy atmosphere. This precarious balance is quite common across most industries in the services sector of our economy.

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EXHIBIT 6.3 Unique Characteristics of Services and Resulting Marketing Challenges.

Service Characteristics	Marketing Challenges
Intangibility	It is difficult for customers to evaluate quality, especially before purchase and consumption. It is difficult to convey service characteristics and benefits in promotion. As a result, the firm is forced to sell a promise. Many services have few standardized units of measurement. Therefore, service prices are difficult to set and justify. Customers cannot take possession of a service.
Simultaneous Production and Consumption	Customers or their possessions must be present during service delivery. Other customers can affect service outcomes including service quality and customer satisfaction. Service employees are critical because they must interact with customers to deliver service. Converting high-contact services to low-contact services will lower costs but may reduce service quality. Services are often difficult to distribute.
Perishability	Services cannot be inventoried for later use. Therefore, unused service capacity is lost forever. Service demand is very time-and-place sensitive. As a result, it is difficult to balance supply and demand, especially during periods of peak demand. Service facilities and equipment sit idle during periods of off-peak demand.
Heterogeneity	Service quality varies across people, time, and place, making it very difficult to deliver good service consistently. There are limited opportunities to standardize service delivery. Many services are customizable by nature. However, customization can dramatically increase the costs of providing the service.
Client-Based Relationships	Most services live or die by maintaining a satisfied clientele over the long term. Generating repeat business is crucial for the service firm's success.

Because of the intangibility of service, it is quite difficult for customers to evaluate a service before they actually purchase and consume it. Third-party evaluations and recommendations for services are not as prevalent as they are with respect to tangible goods. Of course, customers can ask friends and family for recommendations, but in many cases a good assessment of quality is hard to obtain. This forces customers to place some degree of trust in the service provider to perform the service correctly and in the time frame promised or anticipated. This problem is the reason for the launch of Angie's List, a membership-based referral and recommendation service that provides member ratings for local service providers. One way that companies can address this issue is by providing satisfaction guarantees to customers. For example, Hampton Inn, a national chain of mid-priced hotels, offers guests a free night if they are not 100 percent satisfied with their stay.[2] Midas, H&R Block, and FedEx offer similar guarantees.

Moreover, because most services are dependent upon people (employees, customers) for their delivery, they are susceptible to variations in quality and inconsistency. Such variations can occur from one organization to another, from one outlet to another within the same organization, from one service to another within the same outlet, and even from one employee to another within the same outlet. Service quality can further vary from week to week, day to day, or even hour to hour. Also, because service quality is a subjective phenomenon, it can also vary from customer to customer, and for the same customer from one visit to the next. As a result,

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standardization and service quality are very difficult to control. The lack of standardization, however, actually gives service firms one advantage: Services can be customized to match the specific needs of any customer. Such customized services are frequently very expensive for both the firm and its customers. This creates a dilemma: How does a service firm provide efficient, standardized service at an acceptable level of quality while simultaneously treating every customer as a unique person? This dilemma is especially prevalent in the health care industry today, where care is managed to carefully control both access and cost.

Another major challenge for service marketers is to tie services directly to customers' needs. Although customers typically have few problems in expressing needs for tangible goods, they often have difficulty in expressing or explaining needs for services. In some cases, the need is vague. For example, you may decide that you need a relaxing vacation, but how do you know which services will best meet your need? Which is best for relaxation: a trip to the beach, a cruise, or a stay at a bed-and-breakfast? The answer depends on how you personally define "relaxing." Since different customers have different definitions, the vacation provider has a more difficult job in connecting their service offerings to customers' needs. In other cases, customers may not understand the need for a specific service. For example, business consultants, insurance agents, financial planners, and wedding consultants often have to educate customers on why their services are needed. This is a necessary first hurdle to overcome before these service providers can offer their products as the solution that will best fulfill the need.

Developing New Products

One of the key issues in product strategy deals with the introduction of new products. The development and commercialization of new products is a vital part of a firm's efforts to sustain growth and profits over time. The success of new products depends on the product's fit with the firm's strengths and a defined market opportunity. Market characteristics and the competitive situation will also affect the sales potential of new products. For example, manufacturers such as Garmin, TomTom, and Magellan are consistently developing new GPS devices. However, the future of standalone GPS devices is unclear given that GPS functionality is now an option on most new cars, and is fully integrated into every smartphone. As these GPS-enabled devices add more features, consumers are going to be much less likely to purchase standalone GPS units. This is why many GPS units can now sync with telephones or serve as music players. Some manufacturers, such as Garmin, have expanded beyond GPS devices into areas such as wearables (health tracking wristbands), action cameras, and smartphone apps.[3]

Many firms base their new product introductions on key themes such as product or technological superiority. New product introductions in the electronics, computer, and automotive industries often take this approach. In other firms and industries, new product introductions may stem from only minor tweaking of current products. This approach is common in packaged goods and household items. Truthfully, what is considered to be a new product depends on the point of view of both the firm and its customers. Although some product introductions are actually new, others may only be *perceived* as being new. There are six strategic options related to the newness of products. These options follow, in decreasing degrees of product change:

- **New-to-the-World Products (Discontinuous Innovations)**. These products involve a pioneering effort by a firm that eventually leads to the creation of an entirely new market. New-to-the-world products are typically the result of radical thinking by individual inventors or entrepreneurs. For example, Fred Smith's idea for an overnight package delivery service gave us FedEx.

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- **New Product Lines**. These products represent new offerings by the firm, but the firm introduces them into established markets. For example, P&G's launch of a national chain of car washes is a new product line for the company. New product lines are not as risky as true innovation, and they allow the firm to diversify into closely related product categories.
- **Product Line Extensions**. These products supplement an existing product line with new styles, models, features, or flavors. Anheuser-Busch's introduction of Budweiser Select and Honda's launch of the Civic Hybrid are good examples. Product line extensions allow the firm to keep its products fresh and exciting with minimal development costs and risk of market failure.
- **Improvements or Revisions of Existing Products**. These products offer customers improved performance or greater perceived value. The common "new and improved" strategy used in packaged goods and the yearly design changes in the automobile industry are good examples. Clorox, for example, now offers "splashless" and "anti-allergen" bleach in addition to its perennial "regular" bleach product. The common "shampoo plus conditioner" formulas of many shampoos are another example.
- **Repositioning**. This strategy involves targeting existing products at new markets or segments. Repositioning can involve real or perceived changes to a product. An example is Carnival Cruise Line's effort to attract senior citizens to supplement its younger crowd. Likewise, many design schools have repositioned themselves toward a growing business need for employees who are well versed in the art of innovation. As such, these design schools are now competing with top MBA programs around the country.
- **Cost Reductions**. This strategy involves modifying products to offer performance similar to competing products at a lower price. Book publishers use this strategy when they convert hardback books to paperbacks or e-books. Similarly, a firm may be able to lower a product's price due to improved manufacturing efficiency or a drop in the price of raw materials. For example, many computer manufacturers offer lower-priced products that use standard or slightly dated technology.

The first two options are the most effective and profitable when the firm wants to significantly differentiate its product offering from competitors. However, there are often good reasons to pursue one of the remaining four options, particularly if resource constraints are an issue or if the firm's management does not want to expose the firm to increased market risk. The key to new product success is to create a differential advantage for the new product. What unique benefit does the new product offer to customers? Although this benefit can be based on real differences or based entirely on image, it is the customers' *perception* of differentiation that is critical. For example, despite *Consumer Reports* tests that five-blade or battery-powered razors do not provide a closer shave than traditional three-blade razors, many consumers believe that they do. This belief is based primarily on the back-and-forth marketing battle between Gillette (Fusion razor) and Schick (Quattro and Hydro razors). A number of low-price competitors also exist to serve consumers who do not buy into the new product hype. Whether five blades are truly better than three blades is immaterial. In the battle for supremacy in the razor market, customer perceptions are all that matter.

Customer perceptions are also critical in the process of developing new products. Although the new product development process varies across firms, most firms will go through the following stages:

- **Idea Generation**. New product ideas can be obtained from a number of sources, including customers, employees, basic research, competitors, and supply chain partners.

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- **Screening and Evaluation**. New product ideas are screened for their match with the firm's capabilities and the degree to which they meet customers' needs and wants. In some cases, prototype products are developed to further test the commercial viability of a product concept. New product concepts are also evaluated with respect to projected costs, revenues, and profit potential.
- **Development**. At this stage, product specifications are set, the product design is finalized, and initial production begins. In addition, the full marketing plan is developed in order to acquire the resources and collaboration needed for a full-scale launch.
- **Test Marketing**. As a final test before launch, the new product is test marketed in either real or simulated situations to determine its performance relative to customer needs and competing products.
- **Commercialization**. In this final stage, the product is launched with a complete marketing program designed to stimulate customer awareness and acceptance of the new product.

Many firms try to think outside the box in designing new products. Kia, for example, turned to Peter Schreyer, a German automotive designer, to reinvigorate the South Korean company's brand image. When he was hired away from Volkswagen, Schreyer's first task was to design two new vehicles—the Kia Forte and the Kia Soul—to compete against new designs from Nissan and Scion. He then redesigned Kia's popular Sorento SUV and the midsize Optima sedan. The increase in Kia's brand reputation and sales has been impressive.

PRICING STRATEGY

There is no other component of the marketing program that firms become more infatuated with than pricing. There are at least four reasons for the attention given to pricing. First, the revenue equation is simple: Revenue equals the price times quantity sold. There are only two ways for a firm to grow revenue: increase prices or increase the volume of product sold. Rarely can a firm do both simultaneously. Second, pricing is the easiest of all marketing variables to change. Although changing the product and its distribution or promotion can take months or even years, changes in pricing can be executed immediately in real time. Real-time price changes are the norm in many industries, including air travel, hotels, and electronic commerce. As illustrated in Beyond the Pages 6.2, prices for the same product vary around the world to account for differences in currencies, taxes/tariffs, and consumer demand.

Third, firms take considerable pains to discover and anticipate the pricing strategies and tactics of other firms. Salespeople learn to read a competitor's price sheet upside down at a buyer's desk. Retailers send "secret shoppers" into competitors' stores to learn what they charge for the same merchandise. Even buyers spend considerable time comparison shopping to find the best deal. Finally, pricing receives a great deal of attention because it is considered to be one of the few ways to differentiate a product in commoditized and mature markets. When customers see all competing products as offering the same features and benefits, their buying decisions are primarily driven by price.

Key Issues in Pricing Strategy

Given the importance of pricing in marketing strategy, pricing decisions are among the most complex decisions to be made in developing a marketing plan. Decisions regarding price require a tightly integrated balance among a number of important issues. Many of these issues possess some degree of uncertainty regarding the reactions to pricing among customers, competitors, and supply chain partners.

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BEYOND THE PAGES 6.2

Pricing Around the World[4]

If you do much traveling around the world, you'll quickly learn that products are not priced the same in different countries. In fact, despite widespread American sentiment to the contrary, the prices we pay in the United States are among the lowest in the world. In the latest survey done by the Economist Intelligence Unit, New York, the most expensive U.S. city, ranked 26th on the list of the world's most expensive cities. The top 10 cities, shown below, are dominated by Asian and European cities due to their strong currencies, high consumer confidence, and low interest rates. Cities at the bottom of the list are mostly from the Middle East. For example, Mumbai is the least expensive city in the survey with an index of 39.

Rank	City	Index
1	Singapore	130
2	Paris, France	129
3	Oslo, Norway	128
4	Zurich, Switzerland	125
5	Sydney, Australia	120
6	Caracas, Venezuela	118
7	Geneva, Switzerland	118
8	Melbourne, Australia	118
9	Tokyo, Japan	118
10	Copenhagen, Denmark	117

Note: Index is based on New York at 100.

Differences in pricing across national boundaries are also true with respect to typical purchases. In most cases, the products sold around the world under the same brand name are virtually identical. They are even sold using similar promotional campaigns to the same types of target markets that consume these products in roughly the same manner. Yet, the prices set in different markets can vary dramatically. Consider these examples noted below.

In some cases, there are logical differences in pricing, such as higher costs of transportation or other extra costs associated with bringing a product to market. Other differences are associated with currency valuation. The U.S. dollar is relatively strong compared to other currencies, so it buys more in some cases. Other differences are based on the tax and tariff structures in each country. The United States and Britain, for example, impose very high taxes on tobacco sales. Firms have a great deal of latitude in setting prices, and will often raise prices in some countries simply because consumers are willing to pay the cost to acquire a popular product with few substitutes.

Generally speaking, average prices will be lower in developing countries than in mature, developed countries. This is especially true in services, which are less expensive to deliver due to lower wage rates. The lower cost of labor in developing countries has spawned a groundswell of activity in outsourcing of services to other countries.

Average U.S. Dollar Price of:	Singapore	Paris	Tokyo	Bucharest	Damascus	Mumbai
Loaf of bread	$3.36	$8.44	$7.12	$2.07	$1.88	$0.91
1 bottle wine (750ml)	$25.04	$11.45	$12.53	$4.12	$6.47	$20.59
Gas (1 liter)	$1.73	$2.50	$1.73	$1.75	$0.78	$1.21

Note: All prices shown in U.S. dollars.

These issues are critically important in establishing initial prices, and to modifying the pricing strategy over time. As we review these issues, keep in mind that they are interrelated and must be considered in the context of the firm's entire marketing program. For example, increases in product quality or the addition of new product features often come with an increase in price. Pricing is also influenced by distribution, especially the image and reputation of the outlets where the good or service is sold. Finally, companies often use price as a tool of promotion. Coupons, for example, represent a combination of price and promotion that can stimulate increased sales in many different product categories. In services, price changes are often used to fill unused capacity (e.g., empty airline or theater seats) during nonpeak demand.

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The Firm's Cost Structure

The firm's costs in producing and marketing a product are an important factor in setting prices. Obviously, a firm that fails to cover both its direct costs (e.g., finished goods/components, materials, supplies, sales commission, transportation) and its indirect costs (e.g., administrative expenses, utilities, rent) will not make a profit. Perhaps the most popular way to associate costs and prices is through **breakeven pricing**, where the firm's fixed and variable costs are considered:

$$\text{Breakeven in Units} = \frac{\text{Total Fixed Costs}}{\text{Unit Price} - \text{Unit Variable Costs}}$$

To use breakeven analysis in setting prices, the firm must look at the feasibility of selling more than the breakeven level in order to make a profit. The breakeven number is only a point of reference in setting prices, as market conditions and customer demand must also be considered.

Another way to use the firm's cost structure in setting prices is to use **cost-plus pricing**—a strategy that is quite common in retailing. Here, the firm sets prices based on average unit costs and its planned markup percentage:

$$\text{Selling Price} = \frac{\text{Average Unit Cost}}{1 - \text{Markup Percent (decimal)}}$$

Cost-plus pricing is not only intuitive, but also very easy to use. Its weakness, however, lies in determining the correct markup percentage. Industry norms often come into play at this point. For example, average markups in grocery retailing are typically in the 20 percent range, while markups can be several hundred percent or more in furniture or jewelry stores. Customer expectations are also an important consideration in determining the correct markup percentage.

Although breakeven analysis and cost-plus pricing are important tools, they should not be the driving force behind pricing strategy. The reason is often ignored: Different firms have different cost structures. By setting prices solely on the basis of costs, firms run a major risk in setting their prices too high or too low. If one firm's costs are relatively higher than other firms, it will have to accept lower margins in order to compete effectively. Conversely, just because a product costs very little to produce and market does not mean that the firm should sell it at a low price (movie theater popcorn is a good example). Even if the firm covers its costs, the fact is that customers may not be willing to pay their prices. Hence, market demand is also a critical factor in pricing strategy. In the final analysis, cost is best understood as an absolute floor below which prices cannot be set for an extended period of time.

Perceived Value

Both the firm and its customers are concerned with value. Value is a difficult term to define because it means different things to different people.[5] Some customers equate good value with high product quality, while others see value as nothing more than a low price. We define **value** as a customer's subjective evaluation of benefits relative to costs to determine the worth of a firm's product offering relative to other product offerings. A simple formula for value might look like this:

$$\text{Perceived Value} = \frac{\text{Customer Benefits}}{\text{Customer Costs}}$$

Customer benefits include everything the customer obtains from the product offering such as quality, satisfaction, prestige/image, and the solution to a problem. Customer costs include everything the customer must give up such as money, time, effort, and all nonselected alternatives (opportunity costs). Although value is a key component in setting a viable pricing strategy, good value depends on much more than pricing. In fact, value is intricately tied to every element in the marketing

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program and is a key factor in customer satisfaction and retention. We will discuss the strategic implications of value more fully in Chapter 10.

The Price/Revenue Relationship

All firms understand the relationship between price and revenue. However, firms cannot always charge high prices due to competition from their rivals. In the face of this competition, it is natural for firms to see price-cutting as a viable means of increasing sales. Price cutting can also move excess inventory and generate short-term cash flow. However, all price cuts affect the firm's bottom line. When setting prices, many firms hold fast to these two general pricing myths:[6]

Myth #1: When business is good, a price cut will capture greater market share.

Myth #2: When business is bad, a price cut will stimulate sales.

Unfortunately, the relationship between price and revenue challenges these assumptions and makes them a risky proposition for most firms. The reality is that any price cut must be offset by an increase in sales volume just to maintain the same level of revenue. Let's look at an example. Assume that a consumer electronics manufacturer sells 1,000 high-end stereo receivers per month at $1,000 per system. The firm's total cost is $500 per system, which leaves a gross margin of $500. When the sales of this high-end system decline, the firm decides to cut the price to increase sales. The firm's strategy is to offer a $100 rebate to anyone who buys a system over the next 3 months. The rebate is consistent with a 10 percent price cut, but it is in reality a 20 percent reduction in gross margin (from $500 to $400). To compensate for the loss in gross margin, the firm must increase the volume of receivers sold. The question is by how much? We can find the answer using this formula:

$$\text{Percent Change in Unit Volume} = \frac{\text{Gross Margin \%}}{\text{Gross Margin \%} \pm \text{Price Change \%}} - 1$$

$$0.25 = \frac{0.50}{0.50 - 0.10} - 1$$

As the calculation indicates, the firm would have to increase sales volume by 25 percent to 1,250 units sold in order to maintain the same level of total gross margin. How likely is it that a $100 rebate will increase sales volume by 25 percent? This question is critical to the success of the firm's rebate strategy. In many instances, the needed increase in sales volume is too high. Consequently, the firm's gross margin may actually be lower after the price cut.

Rather than blindly use price cutting to stimulate sales and revenue, it is often better for a firm to find ways to build value into the product and justify the current price, or even a higher price, rather than cutting the product's price in search of higher sales volume. In the case of the stereo manufacturer, giving customers $100 worth of music or movies with each purchase is a much better option than a $100 rebate. Video game manufacturers, such as Microsoft (Xbox One) and Sony (PlayStation 4), often bundle games and accessories with their system consoles to increase value. The cost of giving customers these free add-ons is low because the marketer buys them in bulk quantities. This added expense is almost always less costly than a price cut. And the increase in value may allow the marketer to charge higher prices for the product bundle.

Pricing Objectives

Setting specific pricing objectives that are realistic, measurable, and attainable is an important part of pricing strategy. As shown in Exhibit 6.4, there are a number of pricing objectives that firms may pursue. Remember that firms make money on profit margin, volume, or some combination of the two. A firm's pricing objectives will always reflect this market reality.

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EXHIBIT 6.4 Description of Common Pricing Objectives.

Pricing Objectives	Description
Profit-Oriented	Designed to maximize price relative to competitors' prices, the product's perceived value, the firm's cost structure, and production efficiency. Profit objectives are typically based on a target return, rather than simple profit maximization.
Volume-Oriented	Sets prices in order to maximize dollar or unit sales volume. This objective sacrifices profit margin in favor of high product turnover.
Market Demand	Sets prices in accordance with customer expectations and specific buying situations. This objective is often known as "charging what the market will bear."
Market Share	Designed to increase or maintain market share regardless of fluctuations in industry sales. Market share objectives are often used in the maturity stage of the product life cycle.
Cash Flow	Designed to maximize the recovery of cash as quickly as possible. This objective is useful when a firm has a cash emergency or when the product life cycle is expected to be quite short.
Competitive Matching	Designed to match or beat competitors' prices. The goal is to maintain the perception of good value relative to the competition.
Prestige	Sets high prices that are consistent with a prestige or high status product. Prices are set with little regard for the firm's cost structure or the competition.
Status Quo	Maintains current prices in an effort to sustain a position relative to the competition.

Price Elasticity

Price elasticity is perhaps the most important overall consideration in setting effective prices. Simply defined, **price elasticity** refers to customers' responsiveness or sensitivity to changes in price. A more precise definition defines elasticity as the relative impact on the demand for a product, given specific increases or decreases in the price charged for that product. Firms cannot base prices solely on price elasticity calculations because they will rarely know the elasticity for any product with great precision over time. Further, the same product can have different elasticities in different times, places, and situations. Since the actual price elasticity calculation is difficult to pinpoint precisely, firms often consider price elasticity in regard to differing customer behavior patterns or purchase situations. Understanding when, where, and how customers are more or less sensitive to price is crucial in setting fair and profitable prices.

Generally speaking, customers become much more sensitive to price when they have many different choices or options for fulfilling their needs and wants. Price elasticity is higher (more elastic) in the following situations:

- **Availability of Substitute Products**. When customers can choose among a number of different substitutes, they will be much more sensitive to price differences. This situation occurs very frequently among name-brand products and in markets where product offerings have become commoditized (airlines, for example).
- **Higher Total Expenditure**. As a general rule, the higher the total expense, the more elastic the demand for that product will be. This effect is actually easier to see if we look at a low-priced product. A 20 percent increase in the price of a newspaper, from $1.00 to $1.20 for example, would not have a large impact on demand. However, if the price of a $20,000 car increases by 20 percent, then

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the impact is a much more noticeable $4,000. At that rate of change, some customers will look for a different car or pull out of buying all together.

- **Noticeable Price Differences**. Products having heavily promoted prices tend to experience more elastic demand. Gasoline is a classic example. An increase of 3 cents per gallon is only 45 cents more on a 15-gallon fill-up. However, many customers will drive several miles out of their way to find a lower price (often spending more in gas consumption than they save). Noticeable price differences sometimes occur at specific pricing thresholds. Using the gasoline example, many customers will not notice price increases until gas reaches $4.00 per gallon. At this price, these customers suddenly move from an inelastic mindset to an elastic mindset. The move from $3.80 to $3.90 may not have an impact on these customers, but the jump from $3.90 to $4.00 totally changes their mental framework.
- **Easy Price Comparisons**. Regardless of the product or product category, customers will become more price sensitive if they can easily compare prices among competing products. In industries such as retailing, supermarkets, travel, toys, and books, price has become a dominant purchase consideration because customers can easily compare prices. It should come as no surprise that these industries have also experienced a shift from physical stores to online sales.

In general, customers become much less sensitive to price when they have few choices or options for fulfilling their needs and wants. Price elasticity is lower (more inelastic) in these situations:

- **Lack of Substitutes**. When customers have few choices in terms of substitutes, they will be much less sensitive to price. This situation is common in some categories, including baking/cooking ingredients, add-on or replacement parts, one-of-a-kind antiques, collectables or memorabilia, unique sporting events, and specialized vacation destinations. The more unique or specialized the product, the more customers will pay for it.
- **Real or Perceived Necessities**. Many products, such as food, water, medical care, cigarettes, and prescription drugs, have extremely inelastic demand because customers have real or perceived needs for them. Some product categories are price inelastic because customers perceive those products as true necessities. It matters little whether a customer truly has a need for a specific product. If that customer perceives the product as a necessity, then that customer becomes much less sensitive to price increases for that product.
- **Complementary Products**. Complementary products have an effect on the price sensitivity of related products. If the price of one product falls, customers will become less sensitive to the price of complementary products. For example, when the price of a cruise goes down, the price of shore excursions becomes more inelastic. With more travelers on board, and each having more money to spend, excursion operators realize that travelers are less sensitive to the prices they charge.
- **Perceived Product Benefits**. For some customers, certain products are just worth the price. For these purchases, the phrase "expensive but worth it" comes to mind. All of us have certain products that we indulge in from time to time, such as fine wines, gourmet chocolates, imported coffee, or trips to a day spa. Since these products do not comprise the bulk of our purchasing activities, customers rarely notice, or simply ignore, price increases.
- **Situational Influences**. The circumstances surrounding a purchase situation can vastly alter the price elasticity for a product. Many of these situational influences occur because time pressures or purchase risk increase to the point that an immediate purchase must be made (emergencies, for example). Other common situational influences revolve around purchase risk, typically the social

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risk involved in making a bad decision. In a general sense, customers tend to be much less price sensitive when they purchase items for others or for gift giving.

- **Product Differentiation**. Differentiation reduces the number of perceived substitutes for a product. For example, Coke's differentiation strategy has worked so well that Coke drinkers will buy the soft drink at $2.49 or $3.49 per six-pack. Product differentiation does not have to be based on real differences in order to make customers less price sensitive. Many times the differences are perceptual. Blindfolded, a person may not know the difference between Coke and Pepsi, but consumers do not buy or consume soft drinks blindfolded. The look of the can, the advertising, and prior experiences all come together to differentiate the product.

In a strategic sense, product differentiation is the best way to ensure that customers are not sensitive to price changes. The ultimate goal of this effort is to differentiate the product so well that customers perceive that no competing product can take its place. When this happens, customers will become brand loyal and the demand for the product will become very inelastic. Nike, for example, commands extreme brand loyalty because the firm has successfully differentiated its products through technological innovation, effective advertising, and the ubiquitous swoosh. Likewise, Intel has done a great job using real and perceived differentiation to become the dominant supplier of processor chips in the computer industry.

Pricing Service Products

When it comes to buying services, customers have a difficult time determining quality prior to purchase. Consequently, service pricing is critical because it may be the only quality cue that is available in advance of the purchase experience. If the service provider sets prices too low, customers will have inaccurate perceptions and expectations about quality. If prices are too high, customers may not give the firm a chance. In general, services pricing becomes more important—and more difficult—when:

- Service quality is hard to detect prior to purchase.
- The costs associated with providing the service are difficult to determine.
- Customers are unfamiliar with the service process.
- Brand names are not well established.
- The customer can perform the service themselves.
- Advertising within a service category is limited.
- The total price of the service experience is difficult to state beforehand.

Setting prices for professional services (lawyers, accountants, consultants, doctors, and mechanics) is especially difficult as they suffer from a number of the conditions in the list above. Customers often balk at the high prices of these service providers because they have a limited ability to evaluate the quality or total cost until the service process has been completed. The heterogeneous nature of these services limits standardization; therefore, customer knowledge about pricing is limited. Heterogeneity also limits price comparison among competing providers. The key for these firms is to be up-front about the expected quality and costs of the service. This is often done through the use of binding estimates and contractual guarantees of quality.

Due to the limited capacity associated with most services, service pricing is also a key issue with respect to balancing supply and demand during peak and off-peak demand times. In these situations, many service firms use yield management systems to balance pricing and revenue considerations with their need to fill unfilled capacity. Exhibit 6.5 depicts an example of yield management for a hotel.

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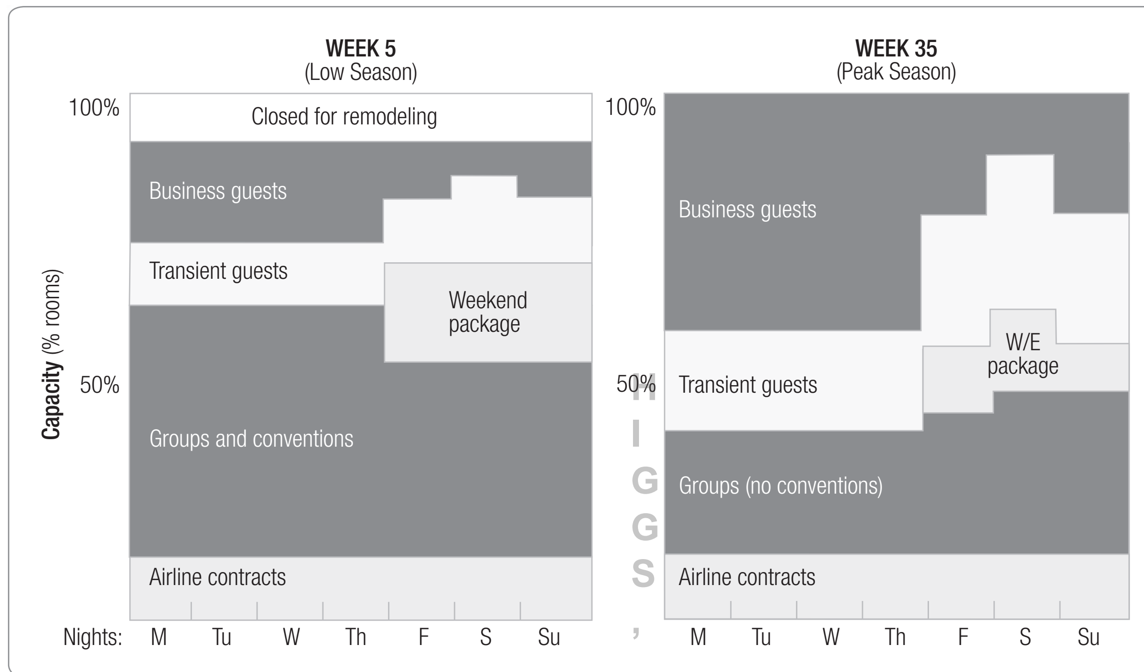
EXHIBIT 6.5 Yield Management for a Hypothetical Hotel.



SOURCE: Adapted from Lovelock, Christopher, "*Services Marketing: People, Technology, Strategy,*" 4th ed., © 2001. Electronically reproduced by permission of Pearson Education Inc., Upper Saddle River, New Jersey.

Yield management allows the service firm to simultaneously control capacity and demand in order to maximize revenue and capacity utilization. This is accomplished in two ways. First, the service firm controls capacity by limiting the available capacity at certain price points. Airlines do this by selling a limited number of seats at discount prices three or more weeks prior to a flight's departure. Southwest Airlines, for example, sells limited seats in three categories: Wanna Get Away (the lowest priced seats), Anytime, and Business Select (the highest priced seats).[7] Second, the service firm controls demand through price changes over time and by overbooking capacity. These activities ensure that service demand will be consistent and that any unused capacity will be minimized. These practices are common in services characterized by high fixed costs and low variable costs, such as airlines, hotels, rental cars, cruises, transportation firms, and hospitals. Since variable costs in these services are quite low, the profit for these firms directly relates to sales and capacity utilization. Consequently, these firms will sell some capacity at reduced prices in order to maximize utilization.

Yield management systems are also useful in their ability to segment markets based on price elasticity. That is, yield management allows a firm to offer the same basic service to different market segments at different price points. Customers who are very price sensitive with respect to travel services—vacation travelers and families with children—can get a good deal on a hotel if they book it early. Conversely, consultants are less price sensitive because their clients reimburse them for expenses. Likewise, business travelers book flights on the spur of the moment, so they are more forgiving of the higher prices just prior to departure. Other firms can reach different market segments with attractive off-peak pricing. Many customers take advantage of the lower prices at theme parks and beach resorts by traveling during the off-season. Similar situations occur in lower-priced movie matinees and lower prices for lunch items at most restaurants.

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Base Pricing Strategies

Although prices for individual products are made on a case-by-case basis, most firms have developed a general and consistent approach—or base pricing strategy—to be used in establishing prices. The relationship between price and other elements of the marketing program dictates that pricing decisions cannot be made in isolation. In fact, price changes may result in minor modifications to the product, distribution, or promotion strategies. As we have discussed, it is not so much the actual price being charged that influences buying decisions as the way that members of the target market perceive the price. This reality reminds us that many of the strategic issues involved in pricing have close ties with customer psychology and information processing: What customers think about prices is what those prices are to them.

A firm's base pricing strategy establishes the initial price and sets the range of possible price movements throughout the product's life cycle. The initial price is critical, not only for initial success, but also for maintaining the potential for profit over the long term. There are several different approaches to base pricing. Some of the most common approaches include:

- **Price Skimming**. This strategy intentionally sets a high price relative to the competition, thereby "skimming" off the profits early after the product's launch. Price skimming is designed to recover the high R&D and marketing expenses associated with developing a new product. For example, new prescription drugs are priced high initially and only drop in price once their patent protection expires.
- **Price Penetration**. This strategy is designed to maximize sales, gain widespread market acceptance, and capture a large market share quickly by setting a relatively low initial price. This approach works best when customers are price sensitive for the product or product category, research and development and marketing expenses are relatively low, or when new competitors will quickly enter the market. To use penetration pricing successfully, the firm must have a cost structure and scale economies that can withstand narrow profit margins.
- **Prestige Pricing**. This strategy sets prices at the top end of all competing products in a category. This is done to promote an image of exclusivity and superior quality. Prestige pricing is a viable approach in situations where it is hard to objectively judge the true value of a product. Ritz-Carlton Hotels, for example, never compete with other hotels on price. Instead, the company competes only on service and the value of the unique, high-quality experience that they deliver to hotel guests.
- **Value-Based Pricing (EDLP)**. Firms that use a value-based pricing approach set reasonably low prices, but still offer high-quality products and adequate customer services. Many different types of firms use value-based pricing; however, retailing has widely embraced this approach, where it is known as everyday low pricing or EDLP. Prices are not the highest in the market, nor are they the lowest. Instead, value-based pricing sets prices so they are consistent with the benefits and costs associated with acquiring the product. Many well-known firms use value-based pricing, including Walmart, Lowe's, Home Depot, IKEA, and Southwest Airlines.
- **Competitive Matching**. In many industries, pricing strategy focuses on matching competitors' prices and price changes. Although some firms may charge slightly more or slightly less, these firms set prices at what most consider to be the "going rate" for the industry. This is especially true in commoditized markets such as airlines, oil, and steel.
- **Non-Price Strategies**. This strategy builds the marketing program around factors other than price. By downplaying price in the marketing program, the firm must be able to emphasize the product's quality, benefits, and unique features,

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as well as customer service, promotion, or packaging in order to make the product stand out against competitors, many of whom will offer similar products at lower prices. For example, theme parks like Disney World, Sea World, and Universal Studios generally compete on excellent service, unique benefits, and one-of-a-kind experiences rather than price. Customers willingly pay for these experiences because they cannot be found in any other setting.

Adjusting the Base Price

In addition to a base pricing strategy, firms also use other techniques to adjust or fine-tune prices. These techniques can involve permanent adjustments to a product's price, or temporary adjustments used to stimulate sales during a particular time or situation. Although the list of potentially viable pricing techniques is quite long, five of the most common techniques in consumer markets are:

- **Discounting**. This strategy involves temporary price reductions to stimulate sales or store traffic. Customers love a sale, and that is precisely the main benefit of discounting. Virtually all firms, even those using value-based pricing, will occasionally run special promotions or sales to attract customers and create excitement. Dillard's, for example, will hold a quick sale early in a selling season, and then return prices to their normal levels. Near the end of the season, Dillard's will begin to make these sale prices (or markdowns) permanent as time draws closer to the end-of-season clearance sale.
- **Reference Pricing**. Firms use reference pricing when they compare the actual selling price to an internal or external reference price. All customers use internal reference prices, or the internal expectation for what a product should cost. As consumers, our experiences have given us a reasonable expectation of how much to pay for a combo meal at McDonald's or a gallon of gas. In other cases, the firm will state a reference price, such as "Originally $99, Now $49." These comparisons make it easier for customers to judge prices prior to purchase.
- **Price Lining**. This strategy, where the price of a competing product is the reference price, takes advantage of the simple truth that some customers will always choose the lowest-priced or highest-priced product. Firms use this to their advantage by creating lines of products that are similar in appearance and functionality, but are offered with different features and at different price points. For example, Sony can cut a few features off its top-of-the-line Model A1 digital camcorder, and Model B2 can be on the shelf at $799 rather than the original $999. Cut a few more features and the price can drop to $599 for Model C3. Here, each model in the Sony line establishes reference prices for the other models in the line. The same is true for all competing camcorders from other manufacturers.
- **Odd Pricing**. Everyone knows that prices are rarely set at whole, round numbers. The concert tickets are $49.95, the breakfast special is $3.95, and the gallon of gas is $2.799. The prevalence of odd pricing is based mostly on psychology: Customers perceive that the seller did everything possible to get the price as fine (and thus as low) as he or she possibly could. To say you will cut my grass for $47 sounds like you put a lot more thought into it than if you just said, "I will do it for $40," even though the first figure is $7 higher.
- **Price Bundling**. Sometimes called solution-based pricing or all-inclusive pricing, price bundling brings together two or more complementary products for a single price. At its best, the bundled price is less than if a company sold the products separately. Slow moving items can be bundled with hot sellers to expand the scope of the product offering, build value, and manage inventory. All-inclusive resorts, including Sandals and Club Med, use price bundling because many customers want to simplify their vacations and add budget predictability.

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Many of these techniques are also used in business markets to adjust or fine-tune base prices. However, there are a number of pricing techniques unique to business markets, including:

- **Trade Discounts**. Manufacturers will reduce prices for certain intermediaries in the supply chain based on the functions that the intermediary performs. In general, discounts are greater for wholesalers than for retailers because the manufacturer wants to compensate wholesalers for the extra functions they perform, such as selling, storage, transportation, and risk taking. Trade discounts vary widely and have become more complicated due to the growth of large retailers who now perform their own wholesaling functions.
- **Discounts and Allowances**. Business buyers can take advantage of sales just like consumers. However, business buyers also receive other price breaks, including discounts for cash, quantity or bulk discounts, seasonal discounts, or trade allowances for participation in advertising or sales support programs.
- **Geographic Pricing**. Selling firms often quote prices in terms of reductions or increases based on transportation costs or the actual physical distance between the seller and the buyer. The most common examples of geographic pricing are uniform delivered pricing (same price for all buyers regardless of transportation expenses) and zone pricing (different prices based on transportation to predefined geographic zones).
- **Transfer Pricing**. Transfer pricing occurs when one unit in an organization sells products to another unit.
- **Barter and Countertrade**. In business exchanges across national boundaries, companies sometimes use products, rather than cash, for payments. Barter involves the direct exchange of goods or services between two firms or nations. Countertrade refers to agreements based on partial payments in both cash and products, or to agreements between firms or nations to buy goods and services from each other.

Another important pricing technique used in business markets is price discrimination, which occurs when firms charge different prices to different customers. When this situation occurs, firms set different prices based on actual cost differences in selling products to one customer relative to the costs involved in selling to other customers. Price discrimination is a viable technique because the costs of selling to one firm are often much higher than selling to others.

SUPPLY CHAIN STRATEGY

Distribution and supply chain relationships are among the most important strategic decisions for any firm. Walmart, Best Buy, Amazon, and even Starbucks depend on effective and highly efficient supply chains to provide competitive advantage. Unfortunately, customers rarely appreciate how companies connect to their supply lines because the processes occur behind the scenes. Customers take supply chain issues for granted and only notice when supply lines are interrupted. The picture is drastically different from the firm's perspective. Today, most companies rank supply chain concerns at the top of the list for achieving a sustainable advantage and true differentiation in the marketplace. Prices can be copied easily, even if only for the short term. Products can become obsolete almost overnight. Good promotion and advertising in September can easily be passé when the prime selling season in November and December comes around. The lesson is clear: Supply chain strategy is vital to the success and survival of every firm.

When we think of supply chain management, we tend to think of two interrelated components:

- **Marketing channels**—an organized system of marketing institutions through which products, resources, information, funds, and/or product ownership flow

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from the point of production to the final user. Some channel members or intermediaries physically take possession or title of products (e.g., wholesalers, distributors, retailers), while others simply facilitate the process (e.g., agents, brokers, financial institutions).

- **Physical distribution**—coordinating the flow of information and products among members of the channel to ensure the availability of products in the right places, in the right quantities, at the right times, and in a cost-efficient manner. Physical distribution (or logistics) includes activities such as customer service/order entry, administration, transportation, storage, and materials handling, (warehousing) inventory carrying and the systems and equipment necessary for these activities.

The term **supply chain** expresses the connection and integration of all members of the marketing channel. Velocity or the need to speed inventory to and from channel members requires collaborating with technology, transportation, and other outside logistics experts. This supply chain process is designed to increase inventory turns, and get the right products to the right place at the right time maintaining the appropriate service and quality standards.[8] The linchpin of effective supply chain management in today's economy is integration. Through informational, technological, social, and structural linkages, the goal of supply chain integration is to create a seamless network of collaborating suppliers, vendors, buyers, and customers. When done correctly, this level of integration results in an extended enterprise that manages value by coordinating the flow of information, goods, and services toward end users, as well as reverse flows away from end users. Creating an extended enterprise requires investments in and commitment to three key factors:[9]

- **Connectivity**—the informational and technological linkages among firms in the supply chain network. Connectivity ensures that firms can access real-time information about the flow in the supply chain network.
- **Community**—the sense of compatible goals and objectives among firms in the supply chain network. All firms must be willing to work together to achieve a common mission and vision.
- **Collaboration**—the recognition of mutual interdependence among members of the supply chain network. Collaboration goes beyond contractual obligations to establish principles, processes, and structures that promote a level of shared understanding. Firms learn to put the needs of the supply chain ahead of their own, because they understand that the success of each firm separately has a strong connection to the success of other firms, as well as the entire supply chain.

Supply chain integration and creating an extended enterprise are extremely challenging goals. In the most seamlessly integrated supply chains, the boundaries among channel members blur to the point where it is difficult to tell where one firm ends and another firm begins. As shown in Exhibit 6.6, this level of integration requires a tenuous balance of trust, cooperation, interdependence, and stability in order to create mutual benefits.[10]

Strategic Supply Chain Issues

The importance of the supply chain ultimately comes down to providing time, place, and possession utility for consumer and business buyers. Without good distribution and logistics, buyers would not be able to acquire goods and services when and where they need them. However, the expense of distribution and logistics requires that firms balance customers' needs with their own need to minimize total costs. Exhibit 6.7 provides a breakdown of total logistics costs across key activities. Note that 49 percent of these expenses are associated with warehousing, storing, and

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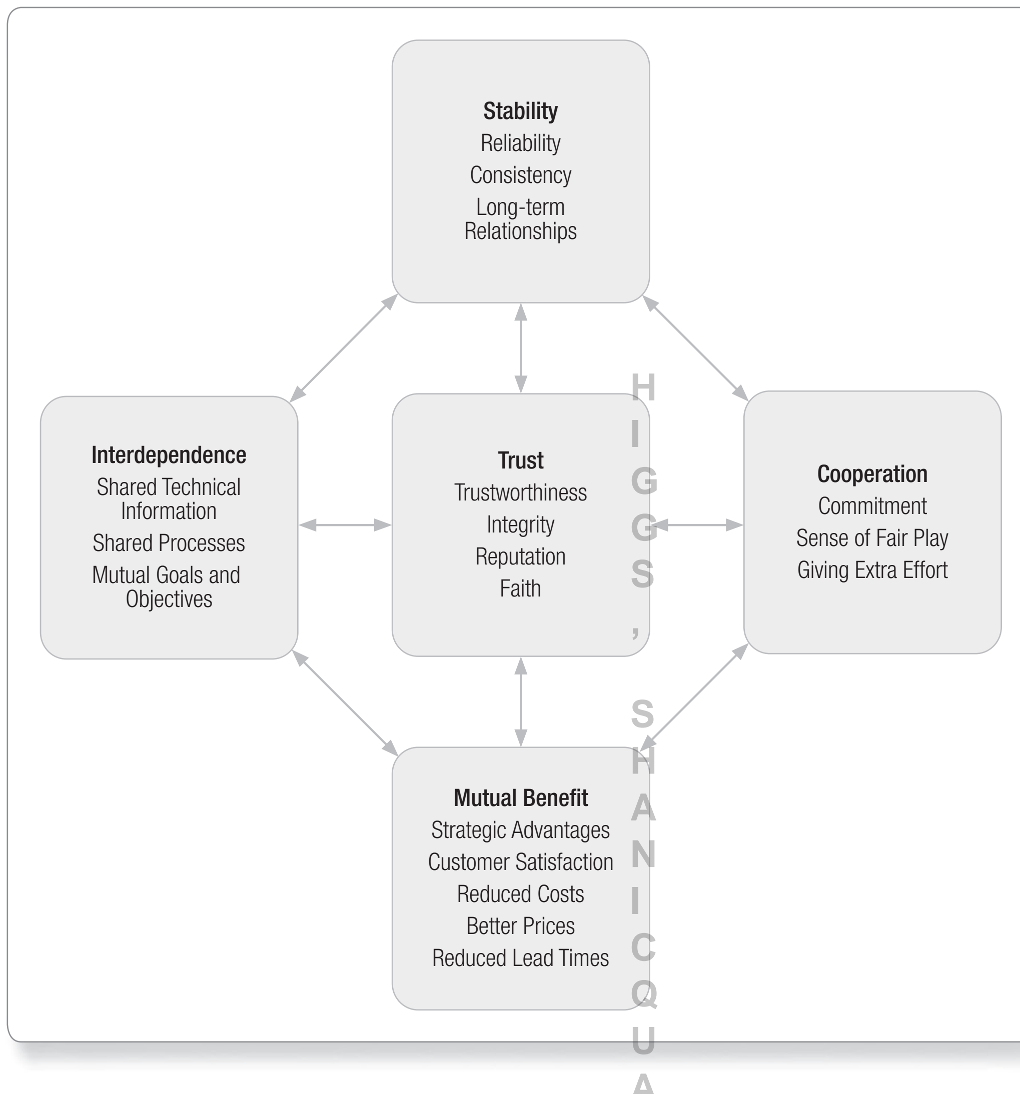
EXHIBIT 6.6 Factors in Successful Supply Chain Integration.



SOURCE: Adapted from Davis, Edward W., Speckman, Robert E., *The Extended Enterprise: Gaining Competitive Advantage through Collaborative Supply Chains*, 1st ed., © 2004. Electronically reproduced by permission of Pearson Education Inc., Upper Saddle River, New Jersey.

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carrying inventory—key factors in ensuring product availability for customers. To manage these costs efficiently, distribution and logistics strategy must balance the needs of customers with the needs of the firm.

Marketing Channel Functions

Marketing channels make our lives easier because of the variety of functions performed by channel members. Likewise, channel members, particularly manufacturers, can cut costs by working through channel intermediaries. The most basic benefit of marketing channels is **contact efficiency**, where channels reduce the number of contacts necessary to exchange products. Without contact efficiency, we would have to visit a bakery, poultry farm, slaughterhouse, and dairy just to assemble the products necessary for breakfast. Likewise, contact efficiency allows companies such as Del Monte Foods to maximize product distribution by selling to select intermediaries. For Del Monte, Walmart stores account for over 31 percent of the

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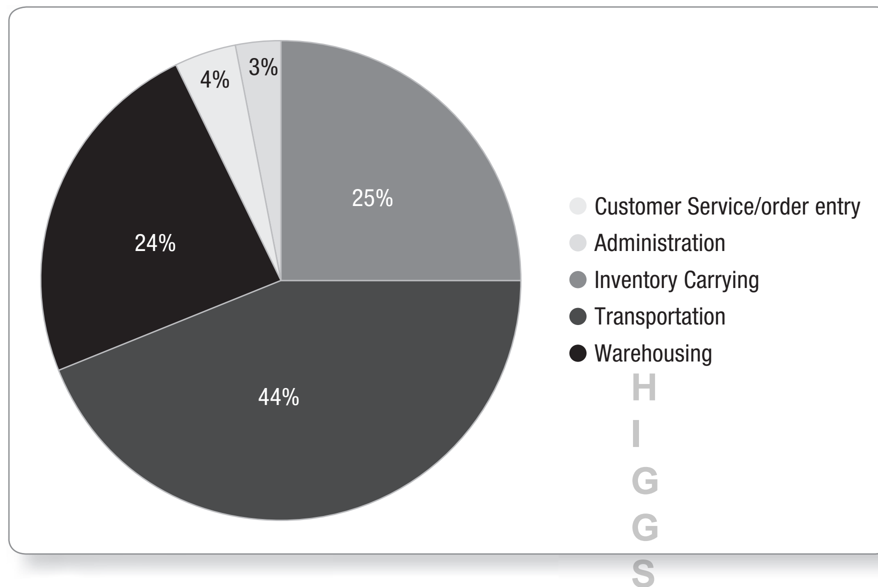
EXHIBIT 6.7 Breakdown of Total Logistics Costs.



SOURCE: From "Cost as a Percent of Sales" in *Establish Davis Logistics Costs and Service 2013*, p. 11, © 2013 Establish, Inc. www.establishinc.com (http://www.establishinc.com/wp-content/uploads/2013/11/Establish-Davis-Logistics-Cost-and-Service-Presentation-2013a.pdf). Reprinted by permission of Establish, Inc., Fort Lee, New Jersey.

company's sales volume. Del Monte's next nine largest customers account for another 30 percent of the company's sales. These percentages will increase if additional consolidation among food retailers and growth of mass merchandisers continues.[11]

Throughout a marketing channel, some firms are good at manufacturing, some are good at transportation or storage, and others are better at selling to consumers. Given the costs involved, it is virtually impossible for a single firm to perform all channel functions well. As a result, channel intermediaries typically attain a level of specialization in one or more of the following functions:

- **Sorting**. Manufacturers make one or a few products while customers need a wide variety and deep assortment of different products. By sorting products in the channel, intermediaries overcome this discrepancy of assortment.
- **Breaking Bulk**. Manufacturers produce large quantities of a product to gain the benefits of economies of scale. However, customers typically want only one of a particular item. By breaking bulk in the channel, intermediaries—particularly retailers—overcome this discrepancy of quantity.
- **Maintaining Inventories**. Since manufacturers cannot make products on demand, the channel must provide for the storage of products for future purchase and use. By maintaining inventories, intermediaries overcome this temporal (time) discrepancy. Note that this does not apply to services—such as haircuts or airline flights—where the product is produced and consumed simultaneously.
- **Maintaining Convenient Locations**. Since manufacturers and customers are separated geographically, the channel must overcome this spatial discrepancy by making products available in convenient locations.
- **Provide Services**. Channels add value to products by offering facilitating services (e.g., insurance, storage, financing) and standardizing the exchange process (e.g., payment processing, delivery, pricing).

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With the exception of highly intangible services like consulting, education, or counseling, the fulfillment of these functions occurs in every marketing channel. Also, these functions must be fulfilled in order for the channel to operate effectively. It does not matter which intermediary performs these functions; the fact remains that they must be performed. For example, Sam's Club does not break bulk in the traditional sense. Sam's customers buy in large quantities and actually break bulk after purchase. Further, many emerging trends in distribution and supply chain management have blurred the responsibilities of different intermediaries. Today, large retailers are essentially a one-stop channel of distribution. Due to their immense size and bulk buying ability, these firms now fulfill virtually all traditional channel functions.

Marketing Channel Structure

There are many strategic options for the structure of a marketing channel; these strategies are often complex and very costly to implement. However, a good distribution strategy is essential for success because once a firm selects a channel and makes commitments to it, distribution often becomes highly inflexible due to long-term contracts, sizable investments, and commitments among channel members. There are three basic structural options for distribution in terms of the amount of market coverage and level of exclusivity between vendor and retailer:

- **Exclusive Distribution**. Exclusive distribution is the most restrictive type of market coverage. Firms using this strategy give one merchant or outlet the sole right to sell a product within a defined geographic region.
- **Selective Distribution**. Firms using selective distribution give several merchants or outlets the right to sell a product in a defined geographic region. Selective distribution is desirable when customers need the opportunity to comparison shop, and after-sale services are important.
- **Intensive Distribution**. Intensive distribution makes a product available in the maximum number of merchants or outlets in each area to gain as much exposure and as many sales opportunities as possible.

Dennis MacDonald/AGE Fotostock

Del Monte Foods is a company that uses contact efficiency.

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Channel structure is clearly linked to other elements in the marketing program and can be an integral part of both branding strategy and product positioning. For example, **exclusive distribution** is commonly associated with prestige products, major industrial equipment, or with firms that attempt to give their products an exclusive or prestige image (e.g., BMW, Jaguar, and Mercedes). Firms that pursue exclusive distribution usually target a single, well-defined market segment. **Selective distribution** is used across many product categories, including clothing (Tommy Hilfiger), cosmetics (Clinique), electronics (Bose), franchising (McDonald's), and premium pet food (Science Diet). These and other companies carefully screen the image and selling practices of merchants to ensure that they match those of the manufacturer and its products. **Intensive distribution** is the best option for most consumer convenience goods, such as candy, soft drinks, over-the-counter drugs, or cigarettes, and for business office supplies like paper and toner cartridges. To gain this visibility and sales volume, the manufacturer must give up a good degree of control over pricing and product display. If a customer cannot find one firm's products in a given location, they will simply substitute another brand to fill the need.

Power in the Supply Chain

True supply chain integration requires a fundamental change in how channel members work together. Among these changes is a move from a "win–lose" competitive attitude to a "win–win" collaborative approach in which there is a common realization that all firms in the supply chain must prosper. Consider the Toro Company that sells turf maintenance equipment, irrigation systems, landscaping equipment, and yard products to both professional and residential markets. This requires many different distributors and dealers (many of which are quite small), as well as supplying products to large national retailers such as Home Depot. If one of Toro's products is made available in Home Depot, it is likely to have a lower retail price (due to bulk buying) than the same or similar product at a local tractor supply company. This situation is clearly not in the best interests of the local firm, so it will strive to put its interests ahead of others in the supply chain. However, the local tractor supply company also understands that it must service Toro equipment—no matter where it was purchased—if it is to remain a certified service facility. For the local firm, putting the needs of the supply chain ahead of its own needs is likely to create tension and conflict with the Toro Company. In situations like this, each firm will exhibit a different degree of authority or power in managing or controlling the activities within the supply chain. There are five basic sources of power in a supply chain:[12]

- **Legitimate Power**. This power source is based on the firm's position in the supply chain. Historically, manufacturers held most of the legitimate power, but this power balance shifted to retailers in the 1990s. In today's economy, retailers still wield a great deal of power, but consumers are clearly in charge.
- **Reward Power**. The ability to help other parties reach their goals and objectives is the crux of reward power. Rewards may come in terms of higher volume sales, sales with more favorable margins, or both. Individual salespeople at the buyer end of the channel may be rewarded with cash payments, merchandise, or vacations to gain more favorable presentation of a manufacturer's or wholesaler's products.
- **Coercive Power**. The ability to take positive outcomes away from other channel members, or the ability to inflict punishment on other channel members. For example, a manufacturer may slow down deliveries or postpone the availability of some portions of a product line to a wholesaler or retailer. Likewise, a retailer can decide not to carry a product, not to promote a product, or to give a product unfavorable placement on its shelves.

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- **Information Power**. Having and sharing knowledge is the root of information power. Such knowledge makes channel members more effective and efficient. Information power may stem from knowledge concerning sales forecasts, market trends, competitive intelligence, product uses and usage rates, or other critical pieces of information. In many supply chains, retailers hold the most information power because their close proximity to customers gives them access to data and information that is difficult to obtain from other sources.
- **Referent Power**. Referent power has its basis in personal relationships and the fact that one party likes another party. It has long been said that buyers like to do business with salespeople they enjoy being around. This is still true, but increasingly referent power has its roots in firms wanting to associate with other firms, as opposed to individual one-on-one relationships. Similar cultures, values, and even information systems can lead to the development of referent power.

Powerful channel members have the ability to get other firms to do things they otherwise would not do. Depending on how the channel member uses its influence, power can create considerable conflict, or it can make the entire supply chain operate more smoothly and effectively. Today, discount mass merchandise retailers—like Walmart, Costco, and Target—and category focused retailers (also known as category killers)—such as Best Buy, Barnes & Noble, Office Depot, and AutoZone—hold the power in most consumer channels. The sheer size and buying power of these firms allows them to demand price concessions from manufacturers. They also perform their own wholesaling functions; therefore, they receive trade discounts traditionally reserved for true wholesalers. Likewise, their control over retail shelf space allows them to dictate when and where new products will be introduced. Manufacturers typically must pay hefty fees, called **slotting allowances**, just to get a single product placed on store shelves. Finally, their closeness to millions of customers allows these large retailers to gather valuable information at the point of sale. As mentioned previously, control over information is a valuable commodity and a source of power in virtually all supply chains.

Trends in Supply Chain Strategy

In addition to the strategic supply chain issues discussed to this point, a number of trends have shaped the structure of marketing channels and the ways that supply chains function. In this section, we examine a number of these trends.

Technological Improvements

Significant advancements in information processing and digital communication have created new methods for placing and filling orders for both business buyers and consumers. The growth of the Internet and electronic commerce is the most obvious sign of these changes. As business buyers and consumers more fully embrace these technologies, the growth of e-commerce will continue to flourish. For example, e-commerce accounted for fewer than 20 percent of transactions in the manufacturing sector in 2002. Today, that number is almost 52 percent. In the wholesaling sector, e-commerce accounts for roughly 26 percent of all transactions. Conversely, e-commerce accounts for only 5.2 percent of all retail transactions, and only 3.1 percent of transactions in service-based industries. Still, e-commerce in these consumer markets is growing at roughly 15 percent per year. These statistics show that electronic commerce still has a great deal of room to grow, especially in consumer markets.[13]

Another promising technology is radio frequency identification (RFID), which involves the use of tiny computer chips with radio transmission capability that can be attached to a product or its packaging. The radio signals reflected from the chip can be used to track inventory levels and product spoilage, or prevent theft. They can also be used for instantaneous checkout of an entire shopping cart of items. As addressed in Beyond the Pages 6.3, large retailers and packaged goods manufacturers have adopted

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RFID, which will eventually replace bar codes as a means to manage inventory.[14] Innovations in web-based communication technologies such as global positioning are also taking rail and truck equipment to a new level of service in supply chain integration.

BEYOND THE PAGES 6.3

Walmart's Supply Chain Advantages[15]

Walmart Stores Inc.—the world's largest retailer—is possibly the most controversial business in America. With over 11,000 stores globally, sales over $482.2 billion in 2015, and approximately 2.2 million employees worldwide, managing stakeholder relationships is a major challenge. The Walmart that saves the average family an estimated $2,300 per year has its critics. Walmart claims that it is committed to improving the standard of living for its customers throughout the world. Their key strategy is a broad assortment of quality merchandise and services at everyday low prices (EDLP) while fostering a culture that claims to reward and embrace mutual respect, integrity, and diversity. Walmart uses the data it collects about customers, as well as data collected throughout its distribution system, to maintain its competitive advantage and low costs.

Walmart is not only the world's largest retailer, it also operates the world's largest datacenter, an organization-wide data collection and storage system that gathers data from all of the firm's critical operating systems as well as from selected external data sources. Walmart's datacenter contains more than 460 terabytes of data with sales information on every item it sells (roughly 200 million transactions per week).

Walmart collects reams of data about products and customers primarily from checkout scanners at its Walmart discount and Sam's Club membership stores. Clerks and managers may also use wireless handheld units to gather additional inventory data. The company stores the detailed data and classifies it into categories such as product, individual store, or region. The system also serves as a basis for the Retail Link decision-support system between Walmart and its suppliers. Retail Link permits some vendors, like Kraft, to access data about how well their products are selling at Walmart stores.

The mountain of data Walmart collects helps boost efficiency dramatically by matching product supplies to demand. This information, for example, helped the firm determine to stock not only flashlights but also extra strawberry Pop-Tarts prior to a hurricane strike on the coast (it seems that Pop-Tart sales increase as much as seven times their normal rate ahead of a hurricane). The data may also help the company track supplier performance, set ideal prices, and even determine how many cashiers to schedule at a certain store on a certain day. Most importantly, it helps the retailer avoid carrying too much inventory or not having enough to satisfy demand.

Technology is a driving force in operational efficiency that lowers costs for Walmart. The merchandise-tracking system uses RFID to ensure that a product can be tracked from the time it leaves the supplier's warehouse to the time it enters and leaves a Walmart store. Walmart began the move to RFID in 2004 by insisting that its top 100 suppliers adopt RFID technology. Supplier adoption has been slowed because the cost to suppliers is much larger than the cost to Walmart (suppliers must continually buy RFID tags while Walmart only needs a system to read the tags). The cost to adopt and implement RFID technology has been estimated to be roughly $9 million per supplier.

RFID helps Walmart keep its shelves stocked and curbs the loss of retail products as they travel through the supply chain. RFID at Walmart has directly resulted in a 16 percent reduction in stockouts and a 67 percent drop in replenishment times. As customers go through checkout, the RFID system swiftly combines point-of-sale data on their purchases with RFID-generated data on what is available in the stockroom to produce pick lists that are automatically created in real time. It also ensures that suppliers are notified when products are sold and can ensure that enough of a product is always at a particular store. This strategy also results in time and labor savings because Walmart associates no longer need to scan shelves to determine what is out of stock; nor do they have to scan cartons and cases arriving at the stockroom. The scanners tag incoming pallets and translate the data into supply chain management database forecasting models to address out-of-stock items and reduce stocking/restocking mix-ups.

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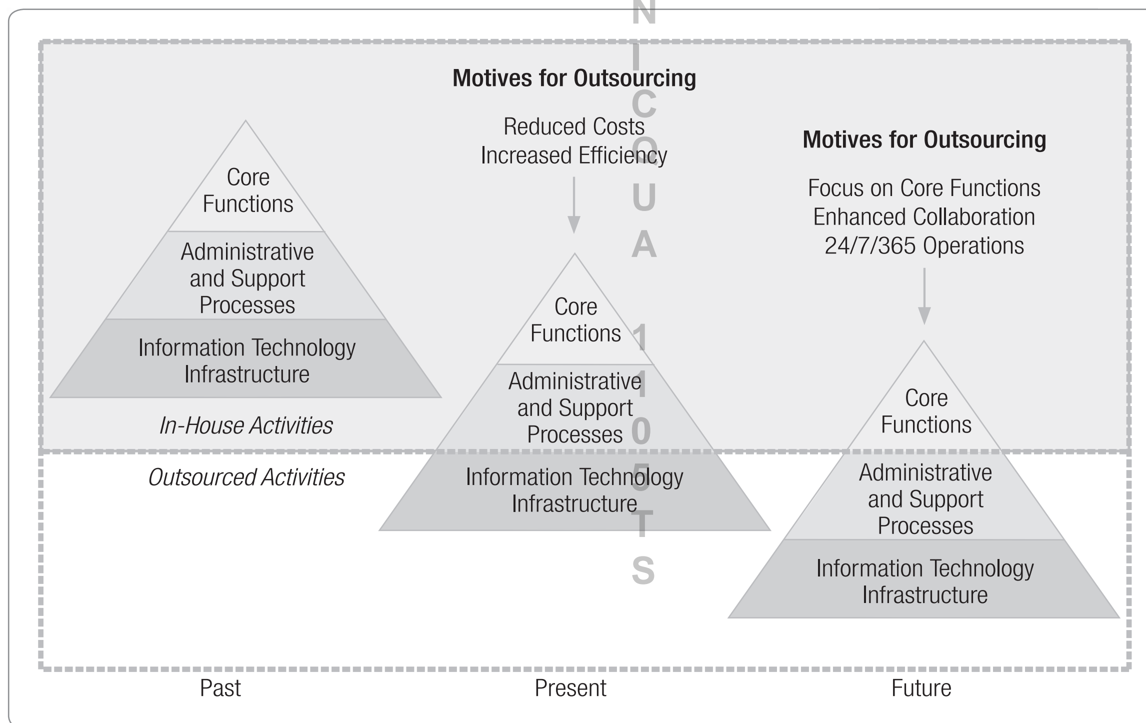
Outsourcing Channel Functions

Outsourcing—shifting work activities to businesses outside the firm—is a rapidly growing trend across many different industries and supply chains.[16] In the past, outsourcing was used primarily as a way of cutting expenses associated with labor, transportation, or other overhead costs. Today, though cutting expenses is still a main factor, the desire of many firms to focus on core competencies drives outsourcing. By outsourcing noncore activities, firms can improve their focus on what they do best, free resources for other purposes, and enhance product differentiation—all of which lead to greater opportunities to develop and maintain competitive advantages. The hourly labor costs in countries such as China, India, and Mexico are far less than in the United States or Europe. These developing countries have improved their manufacturing capabilities, infrastructure, and technical and business skills, making them more attractive regions for global sourcing.

On the other hand, the costs and risks of outsourcing halfway around the world must be taken into consideration. Firms that outsource give up a measure of control over key factors such as data security and the quality of service delivered to customers. To combat these issues, many firms have shifted from outsourcing to offshoring of their own activities. These companies set up their own offshore operations (called captives) to handle business processes where wage rates are lower. ANZ Bank (Australia and New Zealand Banking Group), for example, uses a captive operation in India to handle back-office processing for credit cards, mortgages, wealth management, human resources, and IT development.[17]

As illustrated in Exhibit 6.8, information technology is the primary activity outsourced today. Currently, however, firms are shifting supporting processes to

EXHIBIT 6.8 The Trend in Outsourcing.



SOURCE: Adapted from Edward W. Davis and Robert E. Speckman, *The Extended Enterprise* (Upper Saddle River, NJ: Prentice Hall Financial Times, 2004), p. 111, based on information from Forrester Research, Inc.

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outside businesses. These supporting processes include administrative activities, distribution, human resources, financial analysis, call centers, and even sales and marketing. When a firm has significant needs and insufficient in-house expertise, the importance of outsourcing will increase. For example, an entire industry known as 3PLs (third-party logistics providers) has emerged in the United States and Europe as retailers look toward outside expertise as a way to reduce costs and make their products more readily available. In fact, roughly 77 percent of *Fortune* 500 firms use 3PLs to manage inventories and handle the physical movement of products in the supply chain to ensure that items are in the right amounts and in the right places when needed.[18]

The Growth of Nontraditional Channels

While the traditional marketing channel of manufacturer to wholesaler to retailer is alive and well today, customers' demands for lower prices and greater convenience have put pressure on all channel intermediaries to justify their existence. Every time a different intermediary handles a product, the cost to the final customer increases. This places a great deal of downward pressure on profit margins as firms struggle to balance their need for profit with the need to offer customers good value and fair prices. Under such circumstances, the channel typically evolves into a more direct form. Keep in mind, however, that channel evolution does not replace or alter the basic functions that all channels must perform (e.g., sorting, breaking bulk, holding inventory, etc.). Even after the elimination of certain channel intermediaries, other firms—or even the customer—will have to step in and fulfill these basic functions.

A number of nontraditional channels have emerged to expand opportunities for more direct distribution. The fastest growing example of this trend is e-commerce. However, there are other forms of direct distribution that occur outside the traditional "bricks-and-mortar" of physical stores:

- **Catalog and Direct Marketing**. Some of the most popular and successful direct merchants, including Lands' End, J. Crew, IKEA, Cabela's, and GEICO Insurance, are catalog and direct marketers.
- **Direct Selling**. These merchants sell through face-to-face contact with sales associates. Examples include Avon, Amway, Tupperware, Discovery Toys, and Pampered Chef. Amway is far and away the largest with over $10 billion in sales each year.
- **Home Shopping Networks**. Networks like QVC and the Home Shopping Network serve millions of satisfied customers every week.
- **Vending**. The advantage of vending is 24/7/365 product availability in virtually any location. Though soft drinks account for over 50 percent of vending sales, products such as flowers, toothpaste, movies, and fishing bait can now be purchased via vending machines.
- **Direct Response Advertising**. Many companies sell music, toy, and book products via television commercials and 1-800 phone numbers. One of the largest is Time Life, which sells millions of books, CDs, and DVDs each year. Infomercials, a cross between an advertisement, a news program, and a documentary, are also popular programs for products such as exercise equipment and kitchen appliances.

One of the benefits of nontraditional channels for manufacturers is the ability to offer two or more lines of the same merchandise through two or more channels (often called dual distribution), thus increasing sales coverage. For example, Hallmark sells its highly respected Hallmark line of greeting cards primarily through selective distribution at Hallmark stores. They make their Ambassador and Shoebox Greetings card lines available on an intensive basis through supermarkets, drug stores, and discount retailers. In addition, Hallmark offers both cards and

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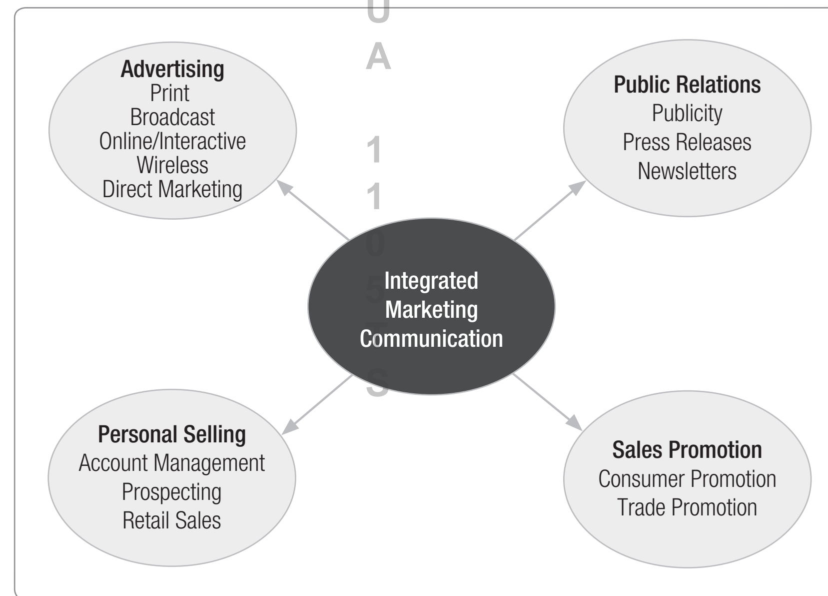
e-cards online. One of the consequences of using multiple channels, however, is that it increases the risk of disintermediation, where customers deal directly with manufacturers and bypass traditional channel intermediaries. Consequently, the use of multiple channels can create conflict between the manufacturer and its supply chain partners. For example, Apple sells the same products in its online store, its physical stores, at large retailers (Best Buy, Walmart, Target), and at Amazon, among others. It is quite common for customers to look at Apple products in retail stores, but then make the actual purchase online at either Apple or Amazon (sometimes even while standing in the store). Amazon's low prices, free shipping, and lack of sales tax in many states also puts physical stores at a disadvantage. For these reasons, manufacturers must carefully weigh the benefits of dual distribution against its potential drawbacks.

INTEGRATED MARKETING COMMUNICATIONS

Without a doubt, promotion and marketing communications are the most ubiquitous elements of any firm's marketing program. This is not surprising because promotional activities are necessary to communicate the features and benefits of a product to the firm's intended target markets. Marketing communications includes conveying and sharing meaning between buyers and sellers, either as individuals, firms, or between individuals and firms. Integrated marketing communications (IMC) refers to the strategic, coordinated use of promotion to create one consistent message across multiple channels to ensure maximum persuasive impact on the firm's current and potential customers. IMC takes a 360-degree view of the customer that considers each and every contact that a customer or potential customer may have in his or her relationship with the firm. The key to IMC is consistency and uniformity of message across all elements of promotion as shown in Exhibit 6.9.

Due to the many advantages associated with IMC, most marketers have adopted integrated marketing as the basis for their communication and promotion strategies.

EXHIBIT 6.9 Components of IMC Strategy.



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By coordinating all communication “touch points,” firms using IMC convey an image of truly knowing and caring about their customers that can translate into long-term customer relationships. Likewise, IMC reduces costs and increases efficiency because it can reduce or eliminate redundancies and waste in the overall promotional program. Many firms have embraced IMC because mass-media advertising has become more expensive and less predictable than in the past. As discussed in Beyond the Pages 6.4, marketers are being forced to adopt new marketing strategies as advancing technology and customer preferences are threatening to make traditional forms of promotion obsolete. Many firms are also embracing technology in order to target customers directly through product placement and online promotion. This increased focus on individual customers requires that the overall promotional program be integrated and focused as well.

Strategic Issues in Integrated Marketing Communications

When selecting elements to include in the IMC program, it is important to take a holistic perspective that coordinates not only all promotional elements but also the IMC program with the rest of the marketing program (product, price, and supply chain strategy). Taking this approach allows a firm to communicate a consistent message to target customers from every possible angle, thereby maximizing the total impact on those customers. For example, if the advertising campaign stresses quality, the sales force talks about low price, the supply chain pushes wide availability, and the website stresses product innovation, then what is the customer to believe? Not readily seeing that a product can deliver all these benefits, the customer is likely to become confused and go to a competitor with a more consistent message.

All too frequently, firms rush to launch an intensive IMC campaign that has no clear promotional objectives. The vast majority of promotion activities do not create results in the short term, so firms must focus on long-term promotional objectives and have the patience to continue the program long enough to gauge true success. It takes a great deal of time, effort, and resources to build a solid market position. Promotion based on creativity alone, unlinked to the rest of the marketing strategy, can waste limited and valuable marketing resources.

Ultimately, the goals and objectives of any promotional campaign culminate in the purchase of goods or services by the target market. The classic model for outlining promotional goals and achieving this ultimate outcome is the **AIDA model**—attention, interest, desire, and action:

- **Attention**. Firms cannot sell products if the members of the target market do not know they exist. As a result, the first major goal of any promotional campaign is to attract the attention of potential customers.
- **Interest**. Attracting attention seldom sells products. Therefore, the firm must spark interest in the product by demonstrating its features, uses, and benefits.
- **Desire**. To be successful, firms must move potential customers beyond mere interest in the product. Good promotion will stimulate desire by convincing potential customers of the product’s superiority and its ability to satisfy specific needs.
- **Action**. After convincing potential customers to buy the product, promotion must then push them toward the actual purchase.

The role and importance of specific promotional elements vary across the steps in the AIDA model. Mass-communication elements, such as advertising and public relations, tend to be used more heavily to stimulate awareness and interest due to their efficiency in reaching large numbers of potential customers. Along with advertising, sales promotion activities, such as product samples or demonstrations, are vital to stimulating interest in the product. The enhanced communication

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BEYOND THE PAGES 6.4

Fragmentation Forever Changes Media Advertising[19]

The increasing fragmentation of consumer audiences has forever changed the way both media and advertisers do business. The problem is that consumers' attention is being spread across an increasing array of media and entertainment choices, including the Internet, targeted cable programming, video-on-demand, DVR, smartphones, tablets, video games, and movies. Today, mass audiences are dwindling fast as consumers spend less time with traditional media such as television, magazines, and newspapers. Consumers now expect to use media whenever and wherever they want, and on any device. They are no longer wed to full-length television programming or to leisurely reading the newspaper. For advertisers, the trend is alarming because their traditional bread-and-butter demographic is fragmenting the most. For example, the number of 18- to 34-year-old men who watch primetime television has declined steadily since 2000. Those who do watch television increasingly use DVR devices to skip advertising or wait for their favorite shows to appear on Netflix or Amazon Prime.

These changes are forcing marketers to adapt by finding newer, more effective ways to reach their target audiences. One way marketers are countering the trend is by linking sales promotion to target markets through strategic integration into related media programming. Company sponsorship of programming or events can allow a close connection between brand and target market. For example, Bravo's *Top Chef* has successfully partnered with Toyota, Clorox, *Food & Wine Magazine*, Campbell Soup, Diet Dr. Pepper, and Quaker. Sponsorship opportunities like these work better than traditional advertising, especially with respect to brand recall. Bank of America, for example, achieves an astounding 39 percent average recall when it sponsors a sporting event. Nike (21 percent), Buick (14 percent), American Express (13 percent), and FedEx (11 percent) have reported similar successes with sports sponsorships.

In addition to outright sponsorship of popular programs, marketers also make deals with television and cable networks, as well as movie studios, to place their products into actual programs and films. In-program product placements have been successful in reaching consumers as they are being entertained, rather than during the competitive commercial breaks. Reality programming in particular has been a natural fit for product placement because of the close interchange between the participants and the products (e.g. Coca-Cola and *American Idol*; Sears and *Extreme Makeover: Home Edition*). Furthermore, sixteen brands were prominently featured in the hit movie, *The Avengers*. Acura, in particular, signed a multi-picture deal with Marvel to showcase its cars in upcoming films. The big winner in product placement is Apple. Its products appeared in 25 percent of all movies in 2014.

Media companies themselves have also been forced to adapt, most notably by fragmenting their content and business models to match their fragmented audiences. One way that companies have addressed the problem is by making their content available on multiple platforms. CBS, for example, first experimented with its broadcast of the 2008 NCAA Basketball Tournament by broadcasting live action on the Internet. The service, called March Madness on Demand, attracted roughly 5 million different online viewers and over $30 million in advertising revenue during the tournament. CBS then switched to a paid model with March Madness Live. For $3.99, fans could watch high-quality streams on their Apple and Android devices. The games were still available for free on CBSSports.com. Today, every game is available for free using the March Madness Live app on Apple, Android, or Windows devices. As these and other examples illustrate, the key to meeting the demands of fragmented audiences is to disaggregate content and make it available *a la carte* style. Consumers prefer to access content (songs, movies, TV shows, news) when, where, and how they want it without having to purchase entire albums, programs, or networks.

Despite the challenges of reaching fragmented audiences, the trend actually has a big side benefit. The science behind traditional broadcast television ratings and audience measurement has always been uncertain. With on-demand services, advertisers are able to precisely measure audience characteristics whether the content is delivered via the Internet, cable, or wireless devices. This one-two punch of profits and precise measurement may mark the death of the traditional 30-second primetime television spot.

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effectiveness of personal selling makes it ideally suited to moving potential customers through internal desire and into action. Other sales promotion activities, such as product displays, coupons, and trial-size packaging, are well suited to pushing customers toward the final act of making a purchase.

Alongside the issue of promotional goals and objectives, the firm must also consider its promotional goals with respect to the supply chain. In essence, the firm must decide whether it will use a pull strategy, a push strategy, or some combination of the two. When firms use a **pull strategy**, they focus their promotional efforts toward stimulating demand among final customers, who then exert pressure on the supply chain to carry the product. The coordinated use of heavy advertising, public relations, and consumer sales promotion has the effect of pulling products through the supply chain, hence its name. In a **push strategy**, promotional efforts focus on members of the supply chain, such as wholesalers and retailers, to motivate them to spend extra time and effort on selling the product. This strategy relies heavily on personal selling and trade sales promotion to push products through the supply chain toward final customers.

Coordinating promotional elements within the context of the entire marketing program requires a complete understanding of the role, function, and benefits of each element. The advantages and disadvantages of each element must be carefully balanced against the promotional budget and the firm's IMC goals and objectives. To ensure a constant and synergistic message to targeted customers, the firm must ultimately decide how to weigh each promotional element in the overall IMC strategy. The next sections take a closer look at the four key elements that comprise most IMC programs.

Advertising

Advertising is a key component of promotion and is usually one of the most visible elements of an integrated marketing communications program. Advertising is paid, nonpersonal communication transmitted through media such as television, radio, magazines, newspapers, direct mail, outdoor displays, the Internet, and mobile devices. Exhibit 6.10 outlines the changing trends in U.S. media advertising. Note the continued growth in Internet advertising while newspapers, magazines, and radio continue to struggle. This spending pattern follows trends in media usage as consumers are spending more time online and less time with traditional media. The major bright spot in recent ad spending figures is the growth in Spanish language advertising. This is not surprising considering the rapid growth of the Hispanic population in the United States. In addition, Hispanics wield over $1 trillion in buying power—a number expected to increase to $1.7 trillion by 2019.[20]

As the use of traditional media declines, advertisers are accelerating their use of Internet-based advertising methods. As shown in Exhibit 6.11, the bulk of Internet-based ad spending—which now totals almost $43 billion in the United States—comes from search advertising, followed by display/banner ads and mobile. The fastest growing segment is in mobile advertising, which is up over 110 percent. Most of the top Internet advertisers come from retail (21 percent of spending), financial services (13 percent), and telecom (9 percent) sectors. Although firms in these and other industries enjoy the large number of impressions that can be generated via Internet-based advertising, their efforts suffer from the fleeting nature of most online ads. Getting a potential customer to click on a banner ad or look at a message for more than a few seconds can be quite challenging.

Despite the many advantages of advertising, its use does create a number of challenges for companies. First, the initial expense for advertising is typically quite high, especially for television. Although media buys such as airtime on the Super Bowl gets a lot of attention, the actual production cost for a 30-second commercial can also be expensive (the U.S. average is around $354,000).[21] Second, many

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EXHIBIT 6.10 Change in U.S. Measured Ad Spending, 2013 vs. 2012.

Media Sector	Percent Change
Television	–0.1
• Network	–3.4
• Cable	7.3
• Spot TV	–8.1
• Syndication	0.5
• Spanish Language	2.9
Magazines	1.8
• Consumer	2.6
• B-to-B	–1.7
• Sunday	–2.6
• Local	–0.5
• Spanish Language	2.3
Newspaper	–3.7
• Local	–3.8
• National	–3.6
• Spanish Language	1.9
Internet	15.7
Radio	–5.6
Outdoor Media	4.4

SOURCE: Kantar Media (http://kantarmedia.us/press/kantar-media-reports-us-advertising-expenditures-increased-09-percent-2013), March 25, 2014.

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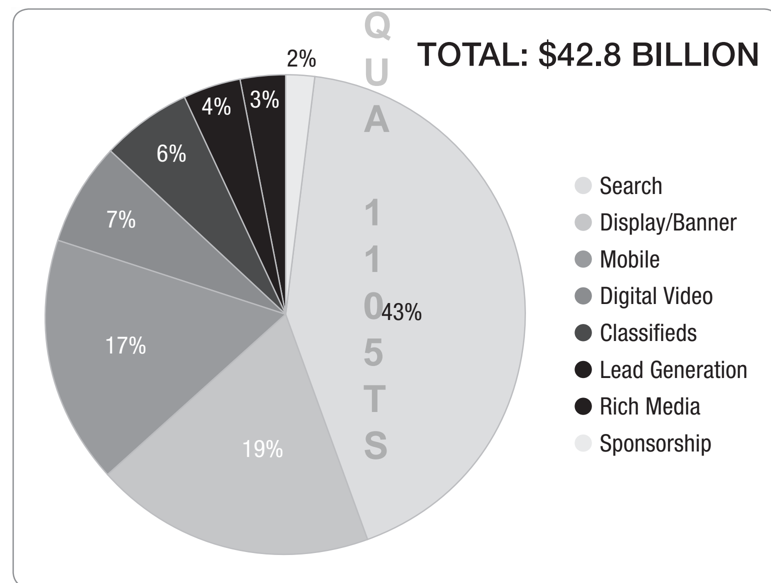
EXHIBIT 6.11 Internet Ad Revenues by Advertising Format, 2013.



SOURCE: "IAB Internet Advertising Revenue Report 2013," Interactive Advertising Bureau, April 2014 (http://www.iab.net/media/file/IAB_Internet_Advertising_Revenue_Report_FY_2013.pdf).

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companies struggle to determine the correct amount of money to allocate to advertising because the effects of advertising are difficult to measure. There are many factors that can determine a firm's decision about the appropriate level to fund advertising activities, including the geographic size of the market, the distribution or density of customers, the types of products advertised, sales volume relative to the competition, and the firm's budget. While setting the budget too high will obviously result in waste and lower profits, setting the budget too low may be worse. Firms that do not spend enough on advertising find it very difficult to stand out in an extremely crowded market for customer attention.

Third, it is usually very difficult to evaluate the effectiveness of advertising. Many of the effects and outcomes of advertising take a long time to develop, especially regarding important outcomes such as enhanced brand image, corporate reputation, and positive product attitudes. The effect of advertising on sales lags in some cases, with the effect occurring long after the campaign has ended. The seemingly unending methods that can be used to evaluate advertising effectiveness further complicate the task of measuring advertising results. Some methods include evaluating the achievement of advertising objectives; assessing the effectiveness of advertising copy, illustrations, and layouts; and evaluating the effectiveness of various media. Effectiveness measures can also look at different market segments and their responses to advertising—including brand image; attitudes toward the advertising, the brand, or the firm; and actual customer purchasing behavior.

Finally, most marketers struggle with the fine line between what is permissible and not permissible in advertising. In addition to cultural and stylistic considerations, marketers must also carefully consider how they portray their products to potential customers. For example, the Federal Trade Commission fined both Skechers ($40 million) and Reebok ($25 million) for false claims about their fitness shoes. The FTC found that both companies misled consumers with ads claiming that using their shoes would lead to a more perfect body.[22] Product claims are also important in comparative advertising, which occurs when one firm compares its product with one or more competing products on specific features or benefits. Comparative advertising is common in product categories such as soft drinks, automobiles, computers, and over-the-counter medications. In some cases, this comparison is direct, as in Burger King's "Whopper Virgin" taste test, where the company had people who had never tasted a hamburger before compare a McDonald's Big Mac with the Burger King Whopper. In other cases, the comparison used in the advertisement is indirect or implied. Procter & Gamble uses this tactic when promoting its Gillette razors as "The Best a Man Can Get." The implied comparison in this case involves all competing razors on the market. Under the provisions of the Trademark Law Revision Act, marketers using comparative advertising must ensure they do not misrepresent the characteristics of competing products.

Public Relations

Public relations is one component of a firm's corporate affairs activities. The goal of **public relations** is to track public attitudes, identify issues that may elicit public concern, and develop programs to create and maintain positive relationships between a firm and its stakeholders. A firm uses public relations to communicate with its stakeholders for the same reasons that it develops advertisements. Public relations can be used to promote the firm, its people, its ideas, and its image and can even create an internal shared understanding among employees. Because various stakeholders' attitudes toward the firm affect their decisions relative to the firm, it is very important to maintain positive public opinion.

Public relations can improve the public's general awareness of a company and can create specific images such as quality, innovativeness, value, or concern for

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social issues. For example, New Belgium Brewery in Fort Collins, Colorado, has a strong reputation for its stance on environmental efficiency and conservation. The brewery takes an aggressive stance toward recycling and uses windmills to generate electricity.[23] Likewise, Starbucks has gained international awareness through its fair treatment of employees. The company was also the first coffee retailer to establish a global code of conduct for fair treatment of agricultural suppliers—the small farmers who supply the coffee beans for its products.

Firms use a number of public relations methods to convey messages and to create the right attitudes, images, and opinions. Public relations is sometimes confused with publicity. Although publicity is one part of public relations, it is more narrowly defined to include the firm's activities designed to gain media attention through articles, editorials, or news stories. By encouraging the media to report on a firm's accomplishments, publicity helps maintain positive public awareness, visibility, and a desired image. Publicity can be used for a single purpose, such as to launch a new product or diminish the public's opinion regarding a negative event, or it can be used for multiple purposes to enhance many aspects of the firm's activities. Having a good publicity strategy is important because publicity can have the same effect as advertising, though typically with greater credibility. There are a number of different methods used in public relations and publicity efforts:

- **News (or Press) Releases**. A news release is a few pages of typewritten copy—typically fewer than 300 words—used to draw attention to a company event, product, or person affiliated with the firm. News releases can be submitted to newspapers, magazines, television contacts, suppliers, key customers, or even the firm's employees.
- **Feature Articles**. A feature article is a full-length story prepared for a specific purpose or target audience. For example, a firm building a new production facility in northeast Georgia might supply a feature article to regional and local media outlets, chambers of commerce, local governments, and major firms in the area. Feature articles typically focus on the implications or economic impact of a firm's actions. They are also very useful when responding to negative events or publicity.
- **White Papers**. White papers are similar to feature articles; however, they are more technical and focus on very specific topics of interest to the firm's stakeholders. White papers promote a firm's stance on important product or market issues and can be used to promote the firm's own products and solutions. White papers have been used extensively in the information technology field where firms continually work to establish standards and keep up with technological innovation.
- **Press Conferences**. A press conference is a meeting with news media called to announce or respond to major events. Media personnel receive invitations to a specific location, with written materials, photographs, exhibits, and even products given to them. Multimedia materials may be distributed to broadcast stations in hopes that they will air some of the activities that occurred at the press conference. Firms typically hold press conferences when announcing new products, patents, mergers or acquisitions, philanthropic efforts, or internal administrative changes.
- **Event Sponsorship**. Corporate sponsorship of major events has become an entire industry in itself. Sponsorships can range from local events, such as high school athletics and local charities, to international events such as the Tour de France or NASCAR. Another popular sponsorship strategy involves the naming of sports stadiums and venues, such as Gillette Stadium, home to the New England Patriots.
- **Employee Relations**. Employee relations are every bit as important as public and investor relations. Employee relations' activities provide organizational

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support for employees with respect to their jobs and lives. Employee relations can encompass many different activities including internal newsletters, training programs, employee assistance programs, and human resource programs.

When these methods generate publicity in the media, the public perceives the message as having more credibility due to the implied endorsement of the media that carries the story. The public will typically consider news coverage more truthful and credible than advertising because the firm has not paid for the media time. One major drawback of public relations activities is that the firm has much less control over how the message will be delivered. For example, many media personnel have a reputation for inserting their own opinions and biases when communicating a news story. Another drawback involves the risk of spending a great deal of time and effort in developing public relations messages that fail to attract media attention.

Personal Selling and Sales Management

Personal selling is paid personal communication that attempts to inform customers about products and persuade them to purchase those products. Personal selling takes place in many forms. For example, a Best Buy salesperson who describes the benefits of a HP laptop to a customer engages in personal selling. So does the salesperson who attempts to convince a large industrial organization to purchase photocopy machines. Some types of personal selling are highly complex and relational in nature. The complexity of these types of contracts requires a long-term, personal relationship between salespeople and companies.

Compared to other types of promotion, personal selling is the most precise form of communication because it assures companies that they are in direct contact with an excellent prospect. Though one-on-one contact is highly advantageous, it does not come without disadvantages. The most serious drawback of personal selling is the cost per contact. In business markets, a single sales presentation can take many months and thousands of dollars to prepare. For instance, to give government officials a real feel for the design and scope of a bridge construction project, Parsons, Inc. (a large engineering and construction firm) must invest thousands of dollars in detailed scale models of several different bridge designs. Personal selling is also expensive due to the costs associated with recruiting, selecting, training, and motivating salespeople. Despite the high costs, personal selling plays an increasingly important role in IMC and overall marketing strategy.

The goals of personal selling vary tremendously based on its role in a long-run approach to integrated communications. These goals typically involve finding prospects, informing prospects, persuading prospects to buy, and keeping customers satisfied through follow-up service after the sale. To effectively deliver on these goals, salespeople have to be not only competent in selling skills but also thoroughly trained in technical product characteristics. For example, pharmaceutical salespeople (drug reps) who sell to physicians and hospitals must have detailed training in the technical medical applications of the drugs and medical devices that they sell. In fact, it is not unusual for salespeople who sell medical implants such as knee or hip replacements to have as much technical training about the product as the physicians who actually implant these devices during surgery. Obviously, when the products and buyers are less sophisticated, salespeople will require much less training.

Very few businesses can survive on the profits generated from purely transactional marketing (one-time purchases). For long-term survival, most firms depend on repeat sales and the development of ongoing relationships with customers. For this reason, personal selling has evolved to take on elements of customer service and marketing research. More than any other part of the firm, salespeople are closer

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to the customer and have many more opportunities for communication with them. Every contact with a customer gives the sales force a chance to deliver exceptional service and learn more about the customer's needs. Salespeople also have the opportunity to learn about competing products and the customer's reaction toward them. These relational aspects are important—whether the salesperson makes a sale or not. In today's highly competitive markets, the frontline knowledge held by the sales force is one of the most important assets of the firm. In fact, the knowledge held by the sales force is often an important strength that can be leveraged in developing marketing strategy.

Because the sales force has a direct bearing on sales revenue and customer satisfaction, the effective management of the sales force is vital to a firm's marketing program. In addition to generating performance outcomes, the sales force often creates the firm's reputation, and the conduct of individual salespeople determines the perceived ethicalness of the entire firm. The strategic implementation of effective sales management requires a number of activities:

- **Developing Sales Force Objectives**. The technical aspects of establishing sales force objectives involve desired sales dollars, sales volume, or market share. These sales objectives can be translated into guidelines for recruiting new salespeople as well as setting quotas for individual salespeople. Further, individual sales objectives might be based on order size, the number of sales calls, or the ratio of orders to calls. Ultimately, sales objectives help evaluate and control sales force activities, as well as compensate individual salespeople.
- **Determining Sales Force Size**. The size of the sales force is a function of many variables including the type of salespeople used, specific sales objectives, and the importance of personal selling within the overall IMC program. The size of the sales force is important because the firm must find a balance between sales expenses and revenue generation. Having a sales force that is too large or too small can lead to inflated expenses, lost sales, and lost profit.
- **Recruiting and Training Salespeople**. Recruiting the right types of salespeople should be closely tied to the personal selling and IMC strategies. Firms usually recruit potential salespeople from a number of sources including within the firm, competing firms, employment agencies, educational institutions, and direct-response advertisements placed on the Internet, in magazines, or in newspapers. Salesperson recruitment should be a continuous activity because firms must ensure that new salespeople are consistently available to sustain the sales program.
- **Controlling and Evaluating the Sales Force**. Controlling and evaluating the sales force require a comparison of sales objectives with actual sales performance. To effectively evaluate a salesperson, predetermined performance standards must be in place. These standards also determine the compensation plan for the sales force. Exhibit 6.12 provides a comparison of various sales force compensation systems.

Across many industries, sales forces have shrunk due to advances in communications technology and mobile computing. The development of integrated supply chains and the procurement of standardized products over the Internet have reduced the need for salespeople in many industries. Although these developments reduce selling costs, they create a major management challenge for most firms: How can firms use new technology to reduce costs and increase productivity while maintaining personalized, one-to-one client relationships?

One of the keys to using sales technology effectively is to seamlessly integrate it with customer relationship management systems, competitive intelligence activities, and internal customer databases. By automating many repetitive selling tasks, like filling repeat orders, sales technology can actually increase sales, productivity, and one-to-one client relationships at the same time. Although many firms develop and

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EXHIBIT 6.12 Comparison of Sales Force Compensation Methods.

Method	Most Useful When:	Advantages	Disadvantages
Straight Salary	• Salespeople are new • Salespeople move into new territories • Products require intense presale and postsale service	• Easy to administer • Gives salespeople more security • Greater control over salespeople • More predictable selling expenses	• Little or no incentive for salespeople • Salespeople require close supervision
Straight Commission	• Aggressive selling is required • Nonselling tasks can be minimized • The firm outsources some selling functions	• Gives salespeople maximum incentive • Ties selling expenses to sales volume • Can use differential commissions for different products to boost sales	• Less security for salespeople • Managers have less control over salespeople • Small accounts may receive less service
Combination	• Sales territories have similar sales potential • The firm wants to provide incentive and still have some control	• Good balance of incentive and security for salespeople	• Selling expenses are less predictable • May be difficult to administer

SOURCE: Adapted from William M. Pride and O.C. Ferrell, *Marketing* (Mason, OH: South-Western: Cengage Learning, 2010), p. 530.

maintain their own sales automation systems, others who lack the resources to do so can turn to third-party providers like Salesforce.com—an on-demand, web-based provider of integrated CRM and sales automation solutions. Whether in-house or third party, the key to these solutions is integration. By pushing integrated customer, competitive, and product information toward the salesperson, technology can increase salesperson productivity and sales revenue by allowing the sales force to serve customers' needs more effectively.

Sales Promotion

Despite the attention paid to advertising, sales promotion activities account for the bulk of promotional spending in many firms. This is especially true for firms selling consumer products in grocery stores and mass-merchandise retailers where sales promotion can account for up to 70 percent of the firm's promotional budget.[24] **Sales promotion** involves activities that create buyer incentives to purchase a product or that add value for the buyer or the trade. Sales promotion can be targeted toward consumers, channel intermediaries, or the sales force. Roughly a third of all sales promotion expenditures are targeted toward the trade (wholesalers and retailers). Direct mail comprises the next largest expense at between 15 and 20 percent. Regardless of the activity and toward whom it is directed, sales promotion has one universal goal: to induce product trial and purchase.

Most firms use sales promotion in support of advertising, public relations, or personal selling activities rather than as a stand-alone promotional element. Advertising is frequently coordinated with sales promotion activities to provide free product samples, premiums, or value-added incentives. For example, a manufacturer might offer free merchandise to channel intermediaries who purchase a stated quantity of product within a specified time frame. A 7-Up bottler, for example, might offer a free case of 7-Up for every 10 cases purchased by a retailer. On the consumer side,

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Coca-Cola's innovative "Don't Dew it" promotion took steps to increase market share of the company's Vault brand over Pepsi's Mountain Dew. In a bold move, Coca-Cola offered free samples of Vault by giving away 16, 20, or 24-ounce Vaults to consumers who purchased a 20-ounce Mountain Dew.[25]

Consumer Sales Promotion

Any member of the supply chain can initiate consumer sales promotions, but manufacturers and retailers typically offer them. For manufacturers, sales promotion activities represent an effective way to introduce new products or promote established brands. Coupons and product sampling are frequently used during new product launches to stimulate interest and trial. Retailers typically offer sales promotions to stimulate customer traffic or increase sales at specific locations. Coupons and free products are common examples, as are in-store product demonstrations. Many retailers are known for their sales promotions such as the free toys that come with kid's meals at McDonald's, Burger King, and other fast food establishments. A potentially limitless variety of sales promotion methods can be used in consumer markets. Truthfully, developing and using these methods is limited only by the creativity of the firm offering the promotion. However, firms will typically offer one or more of the following types of sales promotions to consumers:

- **Coupons**. Coupons reduce the price of a product and encourage customers to try new or established brands. Coupons can be used to increase sales volume quickly, to attract repeat purchasers, or even to introduce new product sizes or models. While coupon cutting (cutting coupons from newspapers or direct mail) was once quite common, the practice declined over the years. This mentality changed with the latest economic recession as many consumers returned to using coupons, especially new mobile coupons. Exhibit 6.13 demonstrates the remarkable growth in mobile coupon users and its connection to mobile device ownership.
- **Rebates**. Rebates are very similar to coupons except that they require more effort on the consumer's part to obtain the price reduction. Although consumers prefer coupons because of the ease of use, most firms prefer rebates for several reasons. First, firms have more control over rebates because they can be launched and ended very quickly. Second, a rebate program allows the firm to collect important consumer information that can be used to build customer databases. The best reason is that most consumers never bother to redeem rebate offers. This allows a firm to entice customers to purchase a product with only a minimal loss of profit.
- **Samples**. Free samples are one of the most widely used consumer sales promotion methods. Samples stimulate trial of a product, increase volume in the early stages of the product's life cycle, and encourage consumers to actively search for a product. Samples can be distributed through the mail, attached to other products, and given out through personal selling efforts or in-store displays. Samples can also be distributed via less direct methods. For example, free samples of soap, shampoo, coffee, or sunscreen might be placed in hotel rooms to create consumer awareness of new products.
- **Loyalty Programs**. Loyalty programs, or frequent-buyer programs, reward loyal customers who engage in repeat purchases. These programs are popular in many industries due to their potential to dramatically increase profits over the long term. We are all familiar with the frequent-flier programs offered by major airlines. Other companies, such as hotels, auto rental agencies, and credit card companies, offer free goods or services for repeat purchases. For instance, the Discover Card provides a one percent cash-back bonus to each cardholder at the end of the year, and Hallmark rewards loyal customers with the Hallmark

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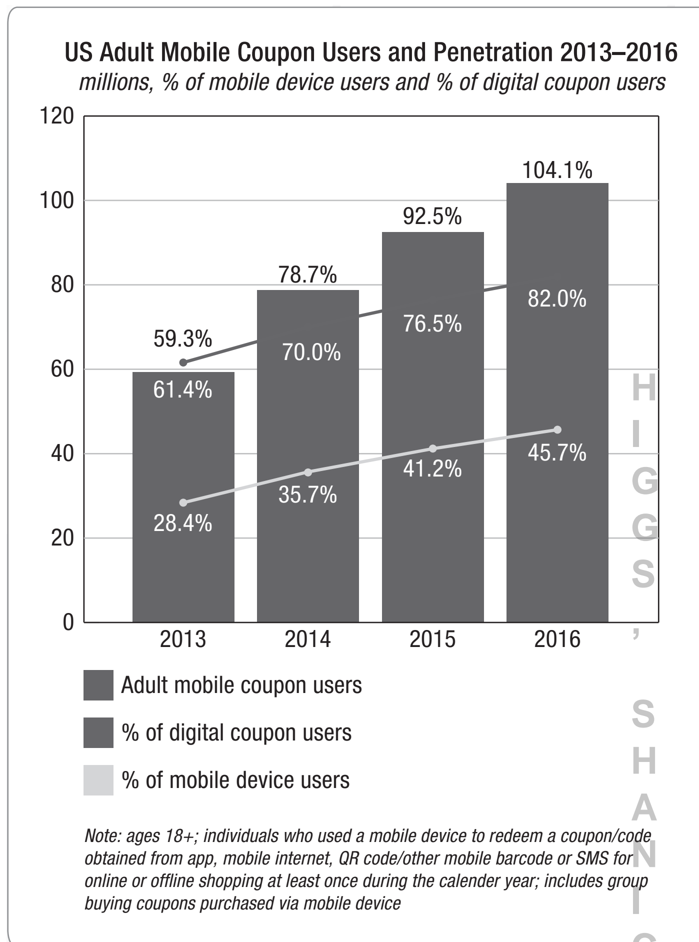
EXHIBIT 6.13 Growth in Adult Mobile Coupon Users.



SOURCE: "Mobile Coupons Are Growing in Usage," *Klick Wire*, November 19, 2014, via eMarketer (https://www.klick.com/health/news/blog/mobile/mobile-coupons-are-growing-in-usage/).

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Gold Crown Card, which allows frequent buyers to accrue points that are redeemable for merchandise and discounts.

- **Point-of-Purchase Promotion**. Point-of-purchase (POP) promotion includes displays, in-store demonstrations, counter pieces, display racks, or self-service cartons that are designed to build traffic, advertise a product, or induce impulse purchases. POP promotions are highly effective because they are used in a store where consumers make roughly 70 to 80 percent of all purchase decisions.
- **Premiums**. Premiums are items offered free or at a minimum cost as a bonus for purchasing a product. Examples of premiums include a free car wash with a gasoline fill-up, a free toothbrush with a purchase of a tube of toothpaste, and the toys offered inside a McDonald's Happy Meal. Premiums are good at increasing consumption and persuading consumers to switch brands.
- **Contests and Sweepstakes**. Consumer contests, games, and sweepstakes encourage potential consumers to compete for prizes or try their luck by submitting their names in a drawing for prizes. In addition to being valuable information collection tools, contests and sweepstakes are good at attracting a large number of participants and generating widespread interest in a product. Because

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Daily Mail/Rex / Alamy

The toy prizes inside a McDonald's Happy Meal may be the best-known consumer sales promotion of all time.

they require no skill to enter, sweepstakes are an effective way to increase sales or market share in the short term.

- **Direct Mail**. Direct mail, which includes catalog marketing and other printed material mailed to individual consumers, is a unique category because it incorporates elements of advertising, sales promotion, and distribution into a coordinated effort to induce customers to buy. The use of direct mail has grown tremendously in recent years due to consumer time constraints, relatively low cost, and the advent of sophisticated database management tools.

Firms can use any one or all of these consumer promotion methods in their overall IMC program. However, the choice of one or more methods must be made in consideration of the firm's IMC objectives. Furthermore, the choice must also consider the use of sales promotions by competitors and whether a particular method involves ethical or legal dimensions. Consumer sweepstakes, in particular, have specific legal requirements to ensure that each entrant has an equally likely chance of winning.

Business (Trade) Sales Promotion

Sales promotion in business markets, or trade promotion, is generally the largest expense in a firm's total sales promotion budget. By targeting channel intermediaries with promotional activities, manufacturers hope to push their products through the channel by increasing sales and encouraging increased effort among their channel partners. Manufacturers use many of the same promotional methods that target consumers; however, a number of sales promotion methods are unique to business markets:

- **Trade Allowances**. Manufacturers offer a number of different trade allowances, or price reductions, to their channel intermediaries. Buying allowances are price reductions for purchasing specified quantities of a product at a single time (the equivalent of a bulk discount). Related to this is a buy-back allowance where the

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reduction is proportional to the total amount of product purchased during the time frame of the promotional offer. Finally, a merchandise allowance is a manufacturer's agreement to pay intermediaries a specific sum of money in exchange for specific promotional efforts such as special displays or advertising. In each case, the goal of the allowance is to induce intermediaries to perform specific actions.

- **Free Merchandise**. Manufacturers sometimes offer free merchandise to intermediaries instead of quantity discounts. Typically, they provide the free merchandise to reduce invoice costs as a way of compensating the intermediary for other activities that assist the manufacturer.
- **Cooperative Advertising**, Cooperative advertising is an arrangement whereby a manufacturer agrees to pay a certain amount of an intermediary's media cost for advertising the manufacturer's products. This is a very popular sales promotion method among retailers.
- **Training Assistance and Sales Incentives**. In some cases, a manufacturer can offer free training to an intermediary's employees or sales staff. This typically occurs when the products involved are rather complex. Selling incentives come in two general forms: push money and sales contests. The intermediary's sales staff receives push money in the form of additional compensation to encourage a more aggressive selling effort for a particular product. This method is expensive and should be used carefully to avoid any ethical or legal issues. Sales contests encourage outstanding performance within an intermediary's sales force. Sales personnel can be recognized for outstanding achievements by receiving money, vacations, computers, or even cars for meeting or exceeding certain sales targets.

Trade sales promotion encompasses a wide variety of activities and is vital when a manufacturer needs the cooperation and support of the channel to fulfill its own sales and marketing objectives. This is particularly true when a manufacturer must obtain support for a new product launch or a new consumer sales promotion. Given the importance of integrated supply chains, it should not be surprising that effective trade promotion is also vital to fulfilling a firm's distribution strategy.

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LESSONS FROM CHAPTER 6

The marketing program:

- refers to the strategic combination of the four basic marketing mix elements: product, price, distribution, and promotion.
- has as its outcome a complete offering that consists of an array of physical (tangible), service (intangible), and symbolic (perceptual) attributes designed to satisfy customers' needs and wants.
- strives to overcome commoditization by enhancing the service and symbolic elements of the offering.

Product strategy:

- lies at the heart of every organization in that it defines what the organization does and why it exists.
- is about delivering benefits that enhance a customer's situation or solve a customer's problems.

The product portfolio:

- is used in both consumer (convenience, shopping, specialty, and unsought products) and business (raw materials, component parts, process materials, MRO supplies, accessory equipment, installations, and business services) markets.

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- is used in most firms due to the advantages of selling a variety of products rather than a single product.
- consists of a group of closely related product items (product lines) and the total group of products offered by the firm (product mix).
- involves strategic decisions such as the number of product lines to offer (variety), as well as the depth of each product line (assortment).
- can create a number of important benefits for firms, including economies of scale, package uniformity, standardization, sales and distribution efficiency, and equivalent quality beliefs.

The challenges of service products:

- stem mainly from the fact that services are intangible. Other challenging characteristics of services include simultaneous production and consumption, perishability, heterogeneity, and client-based relationships.
- include the following issues:
  - service firms experience problems in balancing supply (capacity) with demand.
  - service demand is time-and-place dependent because customers or their possessions must be present for delivery.
  - customers have a difficult time evaluating the quality of a service before it is purchased and consumed.
  - service quality is often inconsistent and very difficult to standardize across many customers.
  - the need for some services is not always apparent to customers. Consequently, service marketers often have trouble tying their offerings directly to customers' needs.

New product development:

- is a vital part of a firm's efforts to sustain growth and profits.
- considers six strategic options related to the newness of products:
  - New-to-the-world products (discontinuous innovations)—which involve a pioneering effort by a firm that leads to the creation of an entirely new market.
  - New product lines—which represent new offerings by the firm, but they become introduced into established markets.
  - Product line extensions—which supplement an existing product line with new styles, models, features, or flavors.
  - Improvements or revisions of existing products—which offer customers improved performance or greater perceived value.
  - Repositioning—which involves targeting existing products at new markets or segments.
  - Cost reductions—which involves modifying products to offer performance similar to competing products at a lower price.
- depends on the ability of the firm to create a differential advantage for the new product.
- typically proceeds through five stages: idea generation, screening and evaluation, development, test marketing, and commercialization.

Pricing:

- is a key factor in producing revenue for a firm.
- is the easiest of all marketing variables to change.
- is an important consideration in competitive intelligence.
- is considered to be the only real means of differentiation in mature markets plagued by commoditization.
- is among the most complex decisions to be made in developing a marketing plan.

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The key issues in pricing strategy include:

- the firm's cost structure.
- perceived value.
- the price/revenue relationship.
- pricing objectives.
- price elasticity.

The firm's cost structure:

- is typically associated with pricing through the use of breakeven analysis or cost-plus pricing.
- should not be the driving force behind pricing strategy because different firms have different cost structures.
- should be used to establish a floor below which prices cannot be set for an extended period of time.

Perceived value:

- is a difficult term to define because it means different things to different people.
- is defined as a customer's subjective evaluation of benefits relative to costs to determine the worth of a firm's product offering relative to other product offerings.

The price/revenue relationship:

- is usually based on two general pricing myths: (1) when business is good, a price cut will capture greater market share, and (2) when business is bad, a price cut will stimulate sales.
- means that firms should not always cut prices, but should instead find ways to build value into the product and justify the current, or a higher, price.

Price elasticity:

- refers to customers' responsiveness or sensitivity to changes in price.
- can increase under these conditions:
  - when substitute products are widely available.
  - when the total expenditure is high.
  - when changes in price are noticeable to customers.
  - when price comparison among competing products is easy.
- can decrease under these conditions:
  - when substitute products are not available.
  - when customers perceive products as being necessities.
  - when the prices of complementary products go down.
  - when customers believe that the product is just worth the price.
  - when customers are in certain situations associated with time pressures or purchase risk.
  - when products are highly differentiated from the competition.

Pricing strategy in services:

- is critical because price may be the only cue to quality that is available in advance of the purchase experience.
- becomes more important—and more difficult—when:
  - service quality is hard to detect prior to purchase.
  - the costs associated with providing the service are difficult to determine.
  - customers are unfamiliar with the service process.
  - brand names are not well established.
  - the customer can perform the service themselves.

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  - the service has poorly defined units of consumption.
  - advertising within a service category is limited.
  - the total price of the service experience is difficult to state beforehand.
- is often based on yield management systems that allow a firm to simultaneously control capacity and demand in order to maximize revenue and capacity utilization.

Major base pricing strategies include:

- price skimming.
- price penetration.
- prestige pricing.
- value-based pricing (EDLP).
- competitive matching.
- non-price strategies.

Strategies for adjusting prices in consumer markets include:

- discounting.
- reference pricing.
- price lining.
- odd pricing.
- price bundling.

Strategies for adjusting prices in business markets include:

- trade discounts.
- discounts and allowances.
- geographic pricing.
- transfer pricing.
- barter and countertrade.

Supply chain strategy:

- is one of the most important strategic decisions for many marketers.
- has remained essentially invisible to customers because the processes occur behind the scenes.
- is important to providing time, place, and possession utility for consumer and business buyers.
- consists of two interrelated components: marketing channels and physical distribution.
- is only effective when all channel members are integrated and committed to connectivity, community, and collaboration.

Marketing channels:

- are organized systems of marketing institutions through which products, resources, information, funds, and/or product ownership flow from the point of production to the final user.
- greatly increase contact efficiency by reducing the number of contacts necessary to exchange products.
- perform a variety of functions: sorting, breaking bulk, maintaining inventories, maintaining convenient locations, and providing services.

Marketing channel structures include:

- exclusive distribution, where a firm gives one merchant or outlet the sole right to sell a product within a defined geographic region.
- selective distribution, where a firm gives several merchants or outlets the right to sell a product in a defined geographic region.

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- intensive distribution, which makes a product available in the maximum number of merchants or outlets in each area to gain as much exposure and as many sales opportunities as possible.

Power in the supply chain:

- can lead to conflict as each firm attempts to fulfill its mission, goals, objectives, and strategies by putting its own interests ahead of other firms.
- can result from five different sources: legitimate power, reward power, coercive power, information power, and referent power.

Trends in marketing channels include:

- technological improvements, such as the growth of electronic commerce and the increasing use of radio frequency identification (RFID).
- outsourcing and offshoring of work activities, particularly information technology operations and supporting functions.
- the growth of nontraditional channels, such as e-commerce, catalog and direct marketing, direct selling, home shopping networks, vending, and direct response advertising.
- the growth of dual distribution, as firms use multiple channels to reach various markets.

Integrated marketing communication:

- includes conveying and sharing meaning between buyers and sellers, either as individuals, firms, or between individuals and firms.
- includes the traditional elements of the promotion mix: advertising, public relations, personal selling, and sales promotion.
- refers to the strategic, coordinated use of promotion to create one consistent message across multiple channels to ensure maximum persuasive impact on the firm's current and potential customers.
- takes a 360-degree view of the customer that considers every contact that a customer or potential customer may have in his or her relationship with the firm.
- typically sets goals and objectives for the promotional campaign using the AIDA model—attention, interest, desire, and action.
- can change depending on whether the firm uses a pull or push strategy with respect to its supply chain.

Advertising:

- is identified as paid, nonpersonal communication transmitted through the media such as television, radio, magazines, newspapers, direct mail, outdoor displays, the Internet, and mobile devices.
- is rapidly expanding online as consumers spend less time with traditional media.
- offers many benefits because it is extremely cost efficient when it reaches a large number of people. On the other hand, the initial outlay for advertising can be expensive.
- is hard to measure in terms of its effectiveness in increasing sales.

Public relations:

- is the element of an IMC program that tracks public attitudes, identifies issues that may elicit public concern, and develops programs to create and maintain positive relationships between a firm and its stakeholders.
- can be used to promote the firm, its people, its ideas, and its image and even to create an internal shared understanding among employees.
- can improve the public's general awareness of a company and can create specific images such as quality, innovativeness, value, or concern for social issues.

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- is often confused with publicity; however, publicity is more narrowly defined to include the firm's activities designed to gain media attention through articles, editorials, or news stories.
- can involve the use of a wide variety of methods, including news or press releases, feature articles, white papers, press conferences, event sponsorship, product placement, and employee relations.

Personal selling:

- is paid, personal communication that attempts to inform customers about products and persuade them to purchase those products.
- is the most precise form of communication because it assures companies that they are in direct contact with an excellent prospect.
- has a serious drawback of high cost per contact.
- goals are typically associated with finding prospects, informing prospects, persuading prospects to buy, and keeping customers satisfied through follow-up service after the sale.
- has evolved to take on elements of customer service and marketing research in order to generate repeat sales and develop ongoing relationships with customers.
- and sales management activities include the development of sales force objectives, determining the size of the sales force, recruiting and training salespeople, and controlling and evaluating the sales force.
- has been greatly impacted by technological advances, especially online sales training and sales automation systems that push integrated customer, competitive, and product information toward the salesperson.

Sales promotion:

- involves activities that create buyer incentives to purchase a product or that add value for the buyer or the trade.
- can be targeted toward consumers, channel intermediaries, or the sales force.
- has one universal goal: to induce product trial and purchase.
- is typically used in support of advertising, public relations, or personal selling activities rather than as a stand-alone promotional element.
- directed toward consumers:
    - can be initiated by any member of the supply chain, but manufacturers or retailers typically offer them.
    - represents an effective way to introduce new products or promote established brands.
    - can include such activities as coupons, rebates, samples, loyalty programs, point-of-purchase promotion, premiums, contests and sweepstakes, and direct mail.
- directed toward the trade (business markets):
    - is undertaken to push products through the channel by increasing sales and encouraging increased effort among channel partners.
    - uses many of the same promotional methods that are targeted toward consumers; however, it involves a number of unique methods including trade allowances, free merchandise, training assistance, cooperative advertising, and selling incentives offered to an intermediary's sales force.

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IndyCar: Seeking a Return to Motorsports' Fast Lane*

CASE 12

Synopsis: Auto racing is the fastest growing spectator sport in the United States. Unfortunately, open-wheel racing has experienced a period of decline while other forms of auto racing—most notably NASCAR—have grown. After years of damaging competition, the Indy Racing League and Champ Car (CART) have finally reunified. New sponsors, new business opportunities, and a new television contract are positive signs for IndyCar, but the league remains a distant third to NASCAR in terms of popularity in the motorsports market. IndyCar must address this issue and several other concerns in order to strengthen its standing in the American motorsports market, continue the task of reconnecting with former fans, and build connections with new fans and sponsors.

Themes: Competition, market segmentation, product and branding strategy, sports and event marketing, sponsorship, global marketing, corporate governance, marketing implementation

The origins of IndyCar can be traced back to the formation of Championship Auto Racing Teams (CART) in 1978. Several automobile racing team owners created CART as a sanctioning body for open-wheel racing in the United States. Open-wheel racing refers to cars whose wheels are located outside the body of the car rather than underneath the body or fenders as found on streetcars. Also, they have an open cockpit, also called a pod, with the engine housed at the rear of the vehicle. The United States Auto Club (USAC) had sanctioned the sport since the mid-1950s, but many racing teams were dissatisfied with USAC's administration and promotion of open-wheel racing. Consequently, CART was founded when 18 of the 21 team owners left USAC to form the new league.

GROWTH AND DIVISION OF U.S. OPEN-WHEEL RACING

For the first 17 years of its existence, CART dominated auto racing in the United States, and open-wheel racing enjoyed greater notoriety than other forms of racing, including stock car racing. However, not everyone associated with open-wheel racing in the United States welcomed the success enjoyed by CART. One person with major concerns about the direction of CART was Anton H. "Tony" George, the president of the Indianapolis Motor Speedway. George's family had founded the Indianapolis 500 and developed it into the premier American auto race and an event of worldwide significance. George was concerned that CART was beginning to lose sight of the interests of American open-wheel racing by holding events in foreign countries, putting too much emphasis on racing at road courses instead of oval tracks, and focusing too much on promoting top foreign drivers as CART stars.

In 1994 George announced that he was creating a new open-wheel league that would compete with CART beginning in 1996 called the Indy Racing League (IRL) (the forerunner to today's IndyCar). The new league was divisive to open-wheel racing in the United States, as team owners were forced to decide whether to remain with CART or move to the new IRL. Only IRL members would be allowed to race in the Indianapolis 500. CART teams responded by planning their own event on the

*Don Roy, Middle Tennessee State University, prepared this case for classroom discussion rather than to illustrate effective or ineffective handling of an administrative situation. Jennifer Sawayda provided editorial assistance. Copyright © 2015.

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same day as the Indianapolis 500. CART held the U.S. 500 at the Michigan International Speedway on Memorial Day weekend, 1996, and drew over 100,000 spectators to the event. The rift between CART and the IRL moved to the courts when lawsuits were filed over use of the terms "IndyCar" and "Indy car," which CART had licensed from the Indianapolis Motor Speedway for several years. The result of the lawsuit was that neither party could use the terms until December 31, 2002.

The IRL–CART feud distracted both leagues and stock car racing solidified its standing as the favorite motor sport in the United States. A 2001 ESPN Sports Poll survey found that 56 percent of American auto racing fans said stock car racing was their favorite type of racing, with open-wheel racing third at 9 percent (drag racing was second at 12 percent). The diminished appeal of open-wheel racing contributed to additional problems with sponsor relationships. Three major partners left CART, including Honda and Toyota, which provided engines and technical support to CART and its teams. In addition, FedEx discontinued its title sponsor relationship with CART after the 2002 season. During the same time, the IRL struggled to find corporate partners as a weakened economy and a fragmented market for open-wheel racing made both the IRL and CART less attractive to sponsors.

The IRL experienced ups and downs in the years following the split. Interest in IRL as measured by television ratings took a noticeable dip between 2002 and 2004, with 25 percent fewer viewers watching races in 2004 than just 2 years earlier. The declining television audience was a factor in the IRL's inability to sell naming rights for its series. The IRL went without a title sponsor for the series from 2002 through 2009. In contrast, NASCAR (National Association of Stock Car Auto Racing) signed a blockbuster deal with Nextel that called for more than $700 million over 10 years beginning in 2004. Industry experts believed that the most the IRL could command for its title sponsorship as long as it competed with CART was about $50 million over 10 years.

In response to declining interest in the IRL, marketing initiatives were taken to reverse the trend. The IRL beefed up its marketing staff. The league did not even have a dedicated marketing staff until 2001. In 2005 the IRL launched a new ad campaign that targeted 18- to 34-year-old males. The focus of the ads was different, too. Instead of focusing on the cutting-edge technology found in IRL cars, as had been done in previous ad campaigns, the focus shifted to drivers and the drama created on the track. The campaign was part of a broader strategy to expand the association of IRL beyond a sport for middle-aged midwestern males. The idea was to position the brand as hip and young.

In support of this effort, two developments can be noted. First, the IRL followed a trend observed in NASCAR and got several celebrities involved in the sport through team ownership. Among the celebrities involved with the IRL are talk show host David Letterman, NBA star Carmelo Anthony, former NFL quarterback Jim Harbaugh, and actor Patrick Dempsey. Another celebrity involved with the IRL is rock star Gene Simmons. He is a partner in Simmons Abramson Marketing, who was hired to help the IRL devise new marketing strategies. The firm's entertainment marketing savvy was tapped to help the IRL connect with fans on an emotional level through its drivers, whom Simmons referred to as "rock stars in rocket ships."

Second, driver personalities began to give the IRL some visibility. The emergence of Danica Patrick as a star in the IRL broadened the appeal of the league and assisted its efforts to reach young males. In 2005 Patrick was a 23-year-old IRL rookie, who finished fourth in the Indianapolis 500. The combination of the novelty of a female driver and her captivating looks and personality made her the darling of American sports that year. Patrick's effect on the IRL was very noticeable; the IRL reported gains in event attendance, merchandise sales, website traffic, and television ratings during Patrick's rookie season. Patrick has drawn the interest of many companies that have hired her as a product endorser, including Motorola, Go Daddy, Boost Mobile, and XM Radio. In addition, she appeared in photo shoots in *FHM* and the 2008 and 2009 *Sports Illustrated* swimsuit issues. Another driver that

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has gained notoriety is Helio Castroneves, a Brazilian driver who won the Indianapolis 500 in 2001, 2002, and 2009. He enhanced his celebrity status by appearing on the popular television show *Dancing with the Stars* in 2007, winning the competition.

THE MOTORSPORTS MARKET

Although many forms of motorsports exist, competition for IndyCar can be narrowed to two properties: Formula 1 and NASCAR. Each competitor is discussed below.

FORMULA 1

Formula 1 is an open-wheel series that has the greatest global reach in terms of race venues and races exclusively on road courses. Formula 1's 20-race schedule includes eight races in Europe as well as races in Australia, Bahrain, Brazil, Canada, China, India, Japan, Malaysia, Singapore, South Korea, United Arab Emirates, and the United States. A Formula 1 race is known as a Grand Prix, with each race taking on the name of the country hosting a particular race (e.g., Grand Prix of Spain). Formula 1 was the first racing league in the Western hemisphere to stage an event in the lucrative Chinese market. Formula 1's drivers have an international flavor. Most hail from European countries, although there are also drivers from Australia, Brazil, and Japan. The winner of the Formula 1 season series is referred to as the "Formula 1 World Driver Champion," further reinforcing Formula 1 as a global racing league.

NASCAR

The clear leader in the U.S. motorsports market is NASCAR. It was founded in the early 1950s, approximately the same time period when USAC was founded. NASCAR fields three racing circuits in the United States: The Sprint Cup Series, the Xfinity Series, and the Camping World Truck Series. The Sprint Cup Series is NASCAR's premier circuit. Its 36 races are held primarily on oval tracks and exclusively in U.S. markets. Like IndyCar, NASCAR has a strong regional following, with the southeast United States being a long-time hotbed for the league. NASCAR was predominantly a southern U.S. sport until the 1990s as exposure provided by cable television and the emergence of strong driver personalities such as Dale Earnhardt and Jeff Gordon led to an explosion in NASCAR's popularity. The league has become even more popular as it has focused on marketing drivers, especially young drivers often referred to as NASCAR's "Young Guns." League and sponsor promotion of drivers such as Dale Earnhardt, Jr., Jimmie Johnson, Ryan Newman, and Kasey Kahne has vaulted NASCAR to a level of popularity in the United States second only to the National Football League.

Today, NASCAR towers over IndyCar in the United States in terms of sponsor support and audiences. NASCAR has sought to expand to become a truly national sport, adding races in Chicago, southern California, and Texas while eliminating races in smaller markets such as Rockingham, North Carolina. Future expansion plans include adding events in the Pacific Northwest and the New York City area. As a result of NASCAR's popularity growth, it was able to negotiate a lucrative, multibillion dollar contract with Fox and ESPN, while IndyCar struggled to secure a favorable television deal.

REUNIFICATION

Many racing observers believe that open-wheel racing could have been as popular as NASCAR is today. In the 1980s and early 1990s, it was CART that enjoyed greater popularity and television ratings. The split in open-wheel racing that led to the

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formation of the IRL was a setback to open-wheel racing in general. The split resulted in a dilution of competition quality, sponsor dollars, and fan support. Many experts believed a reunification of open-wheel racing was the only way to compete against NASCAR.

The long awaited reunification of U.S. open-wheel racing occurred before the beginning of the 2008 season. Champ Car's operations (CART had changed ownership and its name in 2007) were on the verge of ceasing following the cancellation of its final event in 2007 and uncertainty whether a 2008 schedule would be run. Tony George's IRL bought the assets of Champ Car for a mere $10 million and provided a $30 million capital investment for equipment and incentives to bring Champ Car teams into the IRL fold.

After reunification, the IRL rebranded as IndyCar, and its reunified open-wheel racing circuit was branded the IndyCar Series. Decisions had to be made about the markets and racing courses that the IndyCar Series would target following the merger of Champ Car and IRL. The 2015 schedule included 16 races—less than one-half the number of NASCAR Sprint Cup Series races (see Case Exhibit 12.1). One change has been an increase in the number of street and road course races. The IndyCar Series added street races in markets that had been very successful for CART/Champ Car: Long Beach, California, and Toronto, Ontario. Road/street races make up 10 of the 16 races on the IndyCar Series schedule. In contrast, only two of the 36 races in the NASCAR Sprint Cup Series are held on road courses. This characteristic of IndyCar's schedule is drastically different than the product of the old IRL, which ran on oval tracks exclusively between 1996 and 2008.

In addition to the influence of Champ Car's strategy of more street/road courses, another feature of Champ Car that IndyCar sought to leverage was the positioning of races as entertainment events. The race itself is only one piece of the product. Champ Car used the term "Festival of Speed" to position its events. In addition to the race, fans can often partake in such activities as kids' zones, beach volleyball, wine tasting, or live concerts. One description of this approach is, "We throw a party and a race breaks out. We don't want people to come out and sit in metal grandstands for three hours and get sweaty and get sunburned and go home. We

CASE EXHIBIT 12.1 2015 IndyCar Series Racing Schedule

Date	Race
March 29	Firestone Grand Prix of St. Petersburg (St. Petersburg, FL)
April 12	Grand Prix of Louisiana (Avondale, LA)
April 19	Toyota Grand Prix of Long Beach (Long Beach, CA)
April 26	Honda Indy Grand Prix of Alabama (Birmingham, AL)
May 9	Grand Prix of Indianapolis (Indianapolis, IN)
May 24	Indianapolis 500 (Indianapolis, IN)
May 30	Dual in Detroit—Race 1 (Detroit, MI)
May 31	Dual in Detroit—Race 2 (Detroit, MI)
June 6	Firestone 600 (Fort Worth, Texas)
June 14	Honda Indy Toronto (Canada)
June 27	MAVTV 500 (Fontana, CA)
July 12	ABC Supply Wisconsin 250 (Milwaukee, WI)
July 18	Iowa Corn Indy 300 (Newton, IA)
Aug. 7	Honda Indy 200 at Mid-Ohio (Lexington, OH)
Aug. 23	Pocono IndyCar 500 (Long Pond, PA)
Aug. 30	GoPro Grand Prix of Sonoma (Sonoma, AZ)

SOURCE: ESPN, "2015 IndyCar Series schedule," http://espn.go.com/racing/schedule/_/series/indycar (accessed May 28, 2015).

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want stuff going on everywhere." The festival concept has been a success. Street races in Long Beach and Toronto annually draw more than 150,000 people over the course of a 3-day race schedule.

Another positive development for the IndyCar Series was a new television broadcast partner. ABC has televised the Indianapolis 500 for 45 years, and IndyCar continues that relationship. For most of the other races on the schedule (at least 13 per season), IndyCar broke ties with ESPN and signed a 10-year, $67 million contract with VERSUS—rebranded in 2011 as the NBC Sports Network. While the NBC Sports Network has a smaller audience than ESPN, it covers fewer sports and gives the IndyCar Series more coverage (at least 10 hours per week during the racing season) than ESPN did when it owned the broadcast rights. The expanded coverage has helped IndyCar move beyond merely broadcasting races to tell the story of its drivers and the series.

STEPS FORWARD, BACKWARD

Both optimism and uncertainty existed as IndyCar moved beyond reunification. A primary concern for IndyCar following reunification was top leadership. Tony George resigned his top positions with both IndyCar and the Indianapolis Motor Speedway in July 2009. His role in causing the split in open-wheel racing was never forgotten, and many people within the industry believed a reunified league would benefit from a new leader. In 2010 Randy Bernard joined IndyCar as CEO following a highly successful tenure leading Professional Bull Riders (PBR). Bernard created excitement around PBR events and marketed riders' personalities. He had similar priorities for IndyCar. Bernard wanted to raise the profile of IndyCar drivers, to make them "bigger than life." More elaborate driver introductions were produced at races to spotlight drivers, and the league invested in an office responsible for placing IndyCar and drivers in television and movies. Bernard's commitment to marketing was apparent in the successes IndyCar had signing new sponsors and moving into new markets in the United States (Baltimore) as well as Brazil and China. Despite his successes, after 3 years at the helm Bernard stepped down as CEO amidst rumors of conflicts with team owners. During his tenure, Bernard had to deal with the fallback that came when two-time Indianapolis 500 winner Dan Wheldon died in a crash in 2011. However, his resignation was heavily criticized by fans and racing owner Roger Penske, who supported Bernard's efforts at revitalizing the sport. The next few years introduced marketing challenges for IndyCar. The marketing strategy appeared to be inconsistent, and the deal with VERSUS was criticized because it was viewed as being less visible than ESPN.

In 2013 Mark Miles, former president of the ATP tennis tour, assumed the role of CEO. One of Miles's plans was to expand IndyCar globally, increasing its presence in major international events starting in 2015. Miles was able to secure $100 million in tax revenue to restore the Indianapolis Motor Speedway over a 20-year period, made changes to the racing schedule, and secured a new title sponsor, Verizon, to replace IZOD. In spite of these successes, some team owners such as Mario Andretti have been urging IndyCar to increase the marketing of drivers. With some of the big hurdles such as title sponsorship out of the way, Miles has announced the organization will commit more time to marketing driver development.

NEW BUSINESS OPPORTUNITIES

Optimism also exists in new business opportunities IndyCar is realizing. For instance, IndyCar has made important gains in sponsorships. Sponsors include Avis, Firestone, Sirius XM, Tag Heuer, Sunoco, Honda. A partnership with Mattel brought Hot Wheels

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branded IndyCars to retail stores and IndyCar Series events, promoting drivers and the Series schedule by including it on product packaging. Sponsors have been happy to see that their money is going to good use. The IndyCar races featured on NBC saw an average rating increase of 34 percent in viewership from the year before.

In 2010 the IndyCar Series landed a title sponsor for the first time since 2001 when IZOD began a 6-year deal for the IZOD IndyCar Series. IZOD immediately realized benefits of its IndyCar sponsorship. Using a variety of performance metrics including brand familiarity and digital impressions, IZOD concluded that the first year of the sponsorship in 2010 delivered a 350 percent return on investment. IZOD focused its marketing efforts on advertising, in-store displays, and special events. In particular, IZOD felt it had achieved desired impacts among a key demographic: 25- to 35-year-old males.

While IZOD has contributed significantly to IndyCar's promotion, a leadership change at the company caused it to exit its partnership with IndyCar a year earlier than anticipated. Verizon replaced IZOD as a title sponsor in 2014. The partnership deal will last for the next 10 years. As a Fortune 500 company that contends with AT&T in the spot of top telecommunications company in the United States, Verizon has strong marketing clout. It is expected that the telecommunications giant will commit large amounts of resources to its promotion of IndyCar.

Another step forward for IndyCar is increasing its presence beyond tracks and race broadcasts. IndyCar was prominently featured in the DreamWorks movie "Turbo," a story of a snail that dreams of being fast enough to win the Indianapolis 500. The movie featured the Indianapolis Motor Speedway as well as several IndyCar teams, drivers, and sponsors. Also, a weekly television series "INDYCAR 36" follows a driver at the track and away from it over a 36-hour period that gives fans a more intimate view of some of the personalities of IndyCar.

GLOBAL EXPANSION

IndyCar executives see potential benefits in global expansion, although not all car owners are bullish on adding more races outside of North America. China and Brazil have been considered possible venues for international expansion, and the first race of 2015 was scheduled to be held in Brasilia, Brazil. However, the event was cancelled when local authorities claimed the city did not have enough financial resources for the event. The cancellation was a disappointment for IndyCar, and CEO Mark Miles claims that the government dynamic in Brazil concerns him as IndyCar tries to set up a race within the country. On the other hand, Brazil offers a major opportunity for racing with excellent drivers, high ratings, and corporate involvement. Brazil remains a lucrative expansion opportunity for IndyCar in the future. IndyCar has learned that it must carefully analyze the political, legal, and social environment of the countries in which it wants to hold races.

However, not all teams share the enthusiasm for global expansion. Established teams with sponsors whose base of operations is primarily North America say that global expansion hurts exposure for their sponsors and television ratings as races are broadcast either live in early-morning hours or rebroadcast after the outcome is known. The consensus among car owners is that while an international presence is beneficial to the IndyCar Series, its efforts must focus on growing the business in North America. Adding a race in Canada is appealing to IndyCar because of the success of races in Toronto and Edmonton. Vancouver, Calgary, and Quebec City have been mentioned as possible additions to future IndyCar schedules.

FAN ENGAGEMENT

Another marketing priority for IndyCar has been to enhance engagement with fans, both at and away from the tracks. Developing a consistent presentation for all events has enhanced the fan experience at IndyCar Series races. The IndyCar Fan Village

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debuted in 2011 and includes involvement from several sponsors in the form of pavilions that gave fans opportunities to interact with sponsors' products, play games, and visit exhibits. The decision to go with a league-operated experience was made because of an inconsistent presence of interactive areas for fans—some race venues had many exhibits while others had few interactive opportunities. A key feature of the IndyCar Fan Village is that admission requires fans to be a member of IndyCar Nation. Membership is free; the purpose of the membership requirement is to enable IndyCar to collect more data about fans that attend races.

Improving the fan experience has not been limited to efforts at the tracks. A redesign of the IndyCar.com website connected fans with content on the league's social media sites (Facebook, Twitter, YouTube, and Flickr) as well as bloggers from other sites writing about IndyCar. Also, the profile of sponsors was elevated as league partners were featured on the website. IndyCar uses social networking to engage fans beyond providing news and information. The league also partnered with Cie Games, a gaming company that created the Facebook game "Car Town." IndyCar's presence in "Car Town" included cars that players could buy and a pit-stop challenge with an Indianapolis 500 theme. IndyCar and Cie Games shared revenue from IndyCar-related purchases made by "Car Town" players. "Car Town" lasted for 4 years on Facebook and generated over 7 million "likes."

Like NASCAR, IndyCar is challenged to get young people interested in the sport. Among the steps taken to target youth have been lowering the age to enter the garage area to as young as 9 years old. Also, the Indianapolis Motor Speedway offered children 12 and under a free general admission ticket to the race with a paid adult ticket. Creating value by offering interactive, entertaining experiences at races at customer-friendly prices has potential strategic benefits for IndyCar. Michael Andretti, a former IRL driver and now IndyCar team owner, believes the cost advantage of attending IndyCar races compared to NASCAR gives the league an upper hand in a difficult economic environment.

IRL'S CURRENT MARKETING STRATEGY

Despite the positive developments for IndyCar, the long-term future is unclear. One concern is the mix of racetracks and target markets. The 2015 schedule has nearly twice as many road/street races than oval track races. IndyCar touts the mix of races as challenging to drivers, forcing them to master a variety of tracks in order to win the IndyCar season championship. Critics fear fewer oval tracks will take the IndyCar series away from its roots. However, oval track racing is more popular with fans in the United States as evidenced by NASCAR's popularity.

The trend toward scheduling more races outside the United States is another concern. While the 2015 schedule did not contain many markets outside of the United States (the Brazil race was cancelled), CEO Mike Miles has announced the intention of expanding into other countries. Some observers feel that IndyCar is not doing enough to market itself in the United States nor adequately promoting American drivers. The IndyCar driver roster has a more global flavor to it than NASCAR, with drivers hailing from Brazil, Canada, England, France, New Zealand, Spain, and Switzerland, in addition to American drivers. The strong Midwestern U.S. influence of IndyCar seems to be at odds with the globalization of auto racing in general and the desires of IndyCar leadership in particular.

Another challenge faced by IndyCar has been to bring stability to its schedule. American markets such as Cincinnati and Nashville were dropped as IndyCar sought to find the best locations and tracks for its events. The anticipated 2015 Brazilian race was cancelled due to a lack of financial resources. IndyCar was not able to find a replacement for the Brazil race in such a short time period, and the race roster was reduced from 17 to 16. The Brazil race is not the first international race that has

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been cancelled due to conflicts. Financial problems of race promoters created headaches for IndyCar to meet its planned race schedule. In 2012 the first-ever IndyCar race in China had to be canceled when the race promoter could not meet the financial requirements to hold the race.

Maintaining continuity in drivers has been an issue facing Indy racing for years as successful drivers have left to pursue more lucrative opportunities in NASCAR. Tony Stewart, Sam Hornish, Jr., and Robby Gordon all left for NASCAR, and the most popular IndyCar driver in two decades, Danica Patrick, left IndyCar to compete in NASCAR in 2012. Marketing top drivers can be an effective strategy, but those efforts can be negated if a driver leaves for another series. Despite winning only one race in 7 years, Patrick had brought great interest to the league with a combination of attractiveness and determination. Her popularity brought Patrick many endorsement deals, making her very appealing to sponsors seeking to reach the large audience that NASCAR has. However, despite Danica Patrick's popularity and visibility as the face of IndyCar, some insiders believe that her departure will actually benefit the league. Patrick's presence overshadowed other drivers like four-time IndyCar Series champion Dario Franchitti (Franchitti was forced to retire for health reasons in 2013 after a high-speed crash). Now, the league can be more diverse in its marketing of drivers and personalities.

Like all forms of auto racing, safety is a continuous issue for IndyCar. Racecar driving is a dangerous profession, and crashes are not uncommon. In 2011 at the season-ending race in Las Vegas, racecar driver Dan Wheldon was killed in a horrific crash just 11 laps into the race. His death called into question the safety of racing on oval tracks, which were built for stock car racing such as NASCAR. IndyCars reach speeds of more than 220 miles per hour, significantly faster than stock cars. Many people in the racing industry said that IndyCar should discontinue racing on ovals. The decision is complicated by the fact that American auto racing fans prefer racing on oval tracks.

IndyCar has implemented safety measures to reduce the risk of fatal crashes. The Holmatro safety team is a team of 30 safety personnel, including paramedics, firefighters, trauma physicians, and more. The team was instrumental in saving the life of racecar driver James Hinchcliffe who crashed at the Indianapolis Motor Speedway in 2015. That same year racecar champion Helio Castroneves also walked away from a crash sustained during an Indy 500 practice. Although IndyCar has taken measures to increase the safety of its drivers, it should continue to actively find ways to reduce the risks of fatal crashes. Then again, because racecar driving is an inherently dangerous sport, IndyCar is unlikely to ever totally reduce the risk for harm.

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CONCLUSION

Auto racing has been the fastest growing spectator sport in the United States in recent years. Unfortunately, open-wheel racing has experienced a period of decline while other forms of auto racing have grown. For example, Formula 1 racing still appears to be very popular. IndyCar is a distant second to NASCAR in terms of popularity. While NASCAR focuses exclusively on the North American market, especially concentrated in the southeast, IndyCar is trying to become more global. A number of the more popular drivers come from Brazil, New Zealand, Colombia, Canada, as well as the United Kingdom. There is no doubt that these international drivers, if properly promoted, will develop a great deal of interest and support from race fans in their countries. An important challenge is to determine how global IndyCar should be and how to overcome some of the obstacles for international races that are sometimes cancelled due to financial resource issues. Another marketing decision is how to deploy resources to promote this sport. For example, should

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more promotion create a following for specific drivers so fans will want to follow specific drivers in the races? IndyCar cannot succeed without finding the best marketing strategy for fan engagement that will trigger attendance and television viewership.

IndyCar is optimistic about its future, especially as ratings and viewership has risen in recent years. The league must continue to strengthen its standing in the American motorsports market. With the two major open-wheel leagues reunified, IndyCar must reconnect with fans and sponsors as well as build new relationships. And, it must ensure the safety of its greatest marketing asset—the IndyCar drivers.

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QUESTIONS

1. Identify the external factors that have impacted and continue to impact IndyCar and its marketing efforts. Which factors appear to be IndyCar's greatest opportunities and threats?

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2. What are IndyCar's greatest strengths? Which weaknesses would you recommend IndyCar attempt to convert into strengths? How might these weaknesses be converted?
3. What advantages does IndyCar possess over NASCAR? How should these advantages be used by IndyCar to compete with NASCAR?
4. What can IndyCar learn from NASCAR's success? Are there elements of NASCAR's marketing strategy that IndyCar could adopt?

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Chevrolet: A Century of Product Innovation*

CASE 9

Synopsis: This case examines Chevrolet's history of product innovation, branding strategy, and successful product mix in connection with its relationship to parent General Motors and its rivalry with Ford. Chevrolet has a long history of success in developing and marketing cars, trucks, and SUVs that are practical, sporty, and affordable. The brand's relationship with General Motors is both a strength and a weakness, especially in the aftermath of the federal government's financial bailout of General Motors in 2008. Government demands for improved fuel economy and ever-changing customer needs and preferences will be constant challenges as Chevrolet looks toward its next 100 years. Massive product recalls due to ignition issues and other problems have also created the need for GM to reestablish its reputation for customer safety.

Themes: Product innovation, product mix, branding, product strategy, competition, corporate reputation, evolving technology, customer loyalty, government regulation, international marketing

General Motors' (GM) Chevrolet brand celebrated its 100th anniversary in 2011. Throughout its history, Chevrolet has launched many different vehicle models, some of them widely successful and others deleted from the product mix shortly after introduction. Over the years, the company has transitioned from an American icon into a worldwide brand known for quality and durability. On the other hand, wide-scale recalls from GM, many of them involving Chevrolet brands, has somewhat tarnished the brand's reputation. GM will have to work hard to reestablish confidence in its brands and reassure consumers that future vehicle models are safe to drive. Despite numerous successes and failures in its history, including the recent bankruptcy and bailout of parent company GM, Chevrolet is still going strong after more than a century of product innovation.

A HISTORY OF PRODUCT INNOVATION

Ironically, Chevrolet exists because of its top competitor, Ford Motor Company. William Durant founded Chevrolet in 1911 to compete head on with Ford's popular Model T. Durant had formed GM in 1908 but was ousted from the company 3 years later. To compete against Ford's single model of vehicle, Durant realized that GM would need to create several different models. He applied this idea to his new company, Chevrolet. The brand was named after Louis Chevrolet, a top racer who was hired to design the first Chevrolet. Chevrolet's initial model cost $2,000. This was a high-priced vehicle at the time, which Durant disliked because he wanted to compete directly against Ford on price. A disagreement between the two men resulted in Chevrolet leaving the company, but the name of the brand stuck. In 1915, Chevrolet released a less expensive model priced at $490, the same price as a Ford Model T. The company was acquired by GM in 1918 after Durant gained controlling shares in both companies, and Chevrolet went on to become one of GM's most popular brands. Durant once again became GM's president but was ousted a final time in 1920.

*Jennifer Sawayda, University of New Mexico, prepared this case under the direction of O.C. Ferrell for classroom discussion rather than to illustrate effective or ineffective handling of an administrative situation.

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With the Chevrolet brand, GM was able to give Ford a run for its money. In 1912, Chevrolet sold 2,999 vehicles, a mere 1 percent market share in the United States. By 1920, Chevrolet was selling over 100,000 vehicles, and in 1927, it surpassed Ford in number of cars sold. Five years later, one-third of cars sold in America were Chevrolets, although the Great Depression significantly weakened company sales. Over the ensuing decades, Chevrolet attempted to position its products as cutting-edge, equipping its vehicles with innovative technologies and even forming a joint venture with competitor Toyota in 1984 to learn more about Toyota's famous production system (in turn, Toyota was able to gain entry into the U.S. market). The partnership, called New United Motor Manufacturing, Inc., lasted until 2010.

From its beginning with namesake Louis Chevrolet, the company had a penchant for racing. Chevrolet continued courting racecar drivers as endorsers, and racing greats Junior Johnson, Mark Donohue, Tony DeLorenzo, Dale Earnhardt, and Jeff Gordon all won races driving Chevrolet models. The Chevrolet Cruze, one of the company's most popular models, won the Driver's Championship and Manufacturer's Championship in the 2010 World Touring Car Championship races. Chevrolet's association with racecar driving has established many of its models as sporty, high-quality vehicles. Chevrolet also provided the engines for the 2012 Indy Racing League. In 2015, it sponsored the Chevy Indy Dual in Detroit. By reentering the Indy Racing League, Chevrolet has reinforced its racing heritage and brand image.

CHEVROLET'S PRODUCT MIX

For more than 100 years, the Chevrolet brand has been associated with almost every type of vehicle on the road. The company has developed large trucks; delivery vans; full-size, mid-size, compact, and sub-compact automobiles; sports cars; and even racecars. This broad portfolio of products falls under the Chevrolet brand because of the strong brand equity that Chevrolet has developed over the last century. A vehicle's brand provides many intangible attributes related to quality, design, utility, and self-image for the buyer. It is not uncommon for consumers to have extreme brand loyalty to either Chevrolet or Ford, especially in the purchase of light trucks. Therefore, most of the vehicles sold under the Chevrolet brand name start with a competitive advantage over many other existing brands of vehicles. This is why GM uses the Chevrolet brand name on a broader diversity of their vehicles than any other brand. For instance, Cadillac, Buick, and GMC have much narrower portfolios of vehicles and more distinct brand images. Consequently, the Chevrolet brand is an asset to the launch of a new vehicle such as the Volt, an electric vehicle (EV).

Over the years Chevrolet has had many models, and not all of those models are discussed in this case. Case Exhibit 9.1 shows the entire portfolio of Chevrolet

CASE EXHIBIT 9.1 Chevrolet Models Sold within the United States

Cars	SUVs/Crossovers	Trucks/Vans	Electric Vehicles
Sonic	Equinox	Colorado	Volt
Cruze	Traverse	City Express	Spark EV
Malibu	Tahoe	Silverado	
Corvette	Suburban	Express	
Camaro	Trax		
Impala			
Spark			

SOURCE: Based on Chevrolet website (http://www.chevrolet.com), accessed April 24, 2015.

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vehicle models sold in the United States. Here, we look at a number of models that represent the diversity of the Chevrolet product mix that exists today.

Chevrolet is credited with being the first carmaker to create the idea of planned product obsolescence. Based on this concept, Chevrolet introduces a new car model each year, a type of product modification. This marketing strategy allowed Chevrolet to overtake Ford in sales. Many consumers look forward to each new model and are often encouraged to trade in cars every year.

Like all established companies, Chevrolet vehicles underwent several successes and failures. Some vehicles that Chevrolet thought would succeed failed miserably. The 1962 Chevy Corvair was a popular Chevy vehicle until Ralph Nader published *Unsafe at Any Speed*, which pointed out safety issues with the Corvair's steering. The car was eventually deleted from Chevrolet's product mix. The Chevy Vega was another product failure after complaints of the car's poor quality and product recalls created negative publicity. On the other hand, many Chevrolet vehicles became immensely popular, and some, such as the sporty Corvette, still exist today. The following vehicles helped cement Chevrolet's reputation as an icon.

Chevy Corvette

The Chevy Corvette is one of Chevrolet's most important milestones. The Corvette, first revealed at a car show in 1953, was GM's initial foray into the sports car world. Despite initial enthusiasm for the Corvette, the first ones were not very popular. The introduction of the small-block V8 engine in 1955 changed that. GM engineer Zora Arkus-Duntov began to work with the engine to turn the Corvette into a racing vehicle. One year later, Arkus-Duntov raced the revamped Corvette at the Pikes Peak Hill Climb race. Arkus-Duntov won the race for his class and set a new record for stock cars. The 1957 Corvette achieved a reputation for speed, achieving 60 miles per hour (mph) in 5.7 seconds. The Corvette had embarked upon its reputation as "America's sports car."

Chevrolet attempted to position the Corvette as a combination of sportiness and luxury. For instance, one of its early taglines was "looks like a sports car … feels like a sports car … performs like a sports car … how come it's a luxury car?" The Corvette has gone through seven generations, with each successive model undergoing additional modifications in quality and style.

The Corvette has attracted many fans over the years, both on and off the racetrack. Corvette owners have included Alan Shepard (astronaut), Johnny Carson, Jeff Gordon, Jay Leno, and Vice President Joe Biden. The Corvette's fame has made it into a prestigious product with models selling from $50,000 to over $100,000. To celebrate its 100th birthday in 2012, Chevrolet announced the release of the Corvette Centennial edition, available only in carbon flash metallic.

Although the Corvette is still going strong, it has reached the maturity stage due to product innovations on newer Chevrolet models and changing customer tastes. The maturity stage occurs when growth begins to slow. In the case of the Corvette, the average owner is in his or her fifties, which means that younger people are not purchasing them as much, perhaps because they perceive the Corvette as the car that their parents or grandparents drove. In 2009, Corvette sales were the lowest they had been since 1961, and Corvette sales had decreased 48.3 percent since the year before. Some speculated that interest in sports cars was waning. However, this does not necessarily mean the Corvette is going away anytime soon. In 2014, the seventh generation of the Corvette, the Corvette Stingray, was released. In an attempt to appeal to a younger market, the Stingray incorporates more modern features such as a digital instrument panel and leather interiors. Chevrolet also created a digitized version of the Corvette for the video game *Gran Turismo*. The Chevrolet Corvette

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Stingray was nominated as Car of the Year in 2014. Loyal fans and the Corvette's reputation as America's sports car could keep the Corvette going strong for many more years.

Chevrolet Camaro

The Camaro is the story of a car model that would not be conquered. GM released the Camaro in 1967 to directly compete against the Ford Mustang. The competitive intent behind the Camaro was soon clear; when asked what the name of the small sportster meant, product managers stated that it was the name of an animal that ate mustangs. The model has gone through five generations and many ups and downs in popularity over its 35-year run. Toward the turn of the century, it became clear that GM was considering discontinuing the Camaro, as new lineups did not have significant changes in design from previous ones. In 2002, the Camaro line was officially discontinued. Eight years later, due to the pressure from dedicated fans, GM resurrected the Camaro with the release of the 2010 model. The new Camaro blended design elements from the 1960s with modern features, including Bluetooth connectivity, USB connectivity, and OnStar. It also took advantage of car lovers' demands for speed. The car went on to win the 2010 World Car Design of the Year award. In fact, the Camaro was attributed to keeping the sports car industry from floundering. The car sold well even during the Great Recession, with sales of over 60,000 vehicles.

When the new Camaro was announced in 2009, demand was so high that GM strived to create enough supply. Enthusiasts were paying $500 to $2,500 above the sticker price. Although demand has stabilized somewhat, the Camaro seems to be in the growth stage of the product life cycle. In 2009, when convertible sales were at a low, the Chevy Camaro sold well. Two years later it outsold the Ford Mustang. Resurrecting the Camaro appears to be a smart move on Chevrolet's part, but growing competition from the Mustang and rapidly changing consumer tastes will require the company to modify its product to maintain its competitive advantage.

Chevrolet Impala

The Chevrolet Impala was introduced in 1958 and went on to become one of Chevrolet's best-known brand names. As a full-size family sedan, the Impala is one of Chevrolet's larger car models. The Impala experienced extreme growth during the 1960s. Its 1963 model, with its small-block V8 engine and front bucket seats, is now considered to be a collector's item. The Impala's best-selling year occurred in 1965 with sales of 1 million vehicles. Its popularity continued throughout the 1970s, and it was named the best-selling car in 1973.

The Chevy Impala has undergone 10 generations of new models. Its 1994–1996 models have also become collector's items largely due to their luxurious design and strong horsepower. The Impala is a common sight in the NASCAR races after it replaced the Monte Carlo, a car model discontinued by GM. However, the Impala has encountered a number of challenges during its long life span. The Impala began losing sales to mid-sized cars in the 1980s and continues to contend with its smaller rivals to this day. In addition, a suspension problem in Impala vehicles sold in 2007 and 2008 caused a class-action lawsuit to be filed against GM.

Despite these challenges, the Impala remains an industry leader in its segment. The amount of space the Impala offers and its better fuel efficiency gives it a competitive advantage. Yet its 2012 model received lackluster reviews and was criticized for using "cheap interior materials and construction." Its 2014 model, however, sported a redesigned logo and sleeker look. It was nominated as number one among the top family cars for 2015. The 2015 version was released as a micro hybrid with a stop-start system that saves gas. Whether consumers perceive this newer vehicle more positively will determine if sales of the Chevy Impala will grow or stagnate.

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Chevrolet Cruze

The Chevrolet Cruze was a risk that paid off for Chevrolet. This five-seat sedan designed to replace the unpopular Chevy Cobalt jumped almost immediately from the introductory to the growth stage. The success of the Cruze shocked industry experts. Within its first year of sales, the Cruze ranked as the 10th most popular vehicle within the United States. In June 2011, it became the nation's best-selling car. It continued to be ranked among the top 20 best-selling vehicle 3 years later.

The Cruze was released as a global vehicle. It was introduced in Europe in 2009 and has since expanded to the United States, India, China, Mexico, Egypt, South Korea, and South America. The sedan combines safety, technology, speed, and greater fuel efficiency. The Chevrolet Cruze can get 42 mpg on the highway. Improved fuel economy is particularly important in light of impending federal legislation mandating that vehicles get better mileage. Chevrolet claims that its Cruze Clean Turbo Diesel released in 2015 gets 46 mpg due to its clean diesel technology. It also emits 90 percent less nitrogen oxide and particulate emissions.

In its initial promotion of the Cruze, Chevrolet released a series of advertisements voiced by actor Tim Allen that told viewers to "get used to more" while touting the Cruze's technological advances and price tag of $17,000. The company chose to take an adversarial approach to the competition; its "Dear Corolla" advertisements subtly criticized the Toyota Corolla for not offering the latest technology in its vehicles. Such an approach recognizes the highly competitive industry the Chevy Cruze occupies.

In spite of its initial success, the Ford Focus and Hyundai Sonata are giving the Cruze a run for its money. In many ways, the increasingly competitive nature of the auto industry has shortened the life cycles of many vehicle brands; whereas vehicles such as the Corvette have experienced long periods of growth, a competitive environment and increased government regulation could significantly shorten the Cruze's growth period to a small number of years. It remains to be seen whether Chevrolet will be able to maintain the Cruze's growth over the long-term or quickly lose to better-adapted rivals.

Chevrolet Silverado

Chevrolet's pickup trucks are even more popular than its cars. After introducing its first truck in 1918, sales of Chevrolet pickup trucks surpassed car sales in 1989. Chevrolet positions its trucks as strong and durable. It used the successful ad slogan "Like a Rock" in all its truck commercials for a decade. Its most popular truck is the Silverado. According to *USA Today*, sales of the Silverado surpass the gross domestic product of several countries. Successive models of the Silverado have been manufactured to ensure a smoother ride, increased towing capacity, and improved fuel economy. For instance, the Silverado HD increased fuel efficiency by 11 percent. Improvements to the Chevrolet Silverado pickup have appealed to consumers.

The Silverado is available as three different types of pickup truck: light duty, heavy duty, and hybrid. The Silverado was the second best-selling vehicle and won the Truck of the Year award in 2014. For those who love big trucks but hate the large amounts of emissions they generate, the Silverado HD comes equipped with a system that reduces nitrogen oxide emissions.

Chevrolet is trying to discover the right blend between America's love for big trucks (the two best-selling vehicles in 2014 were trucks) and being environmentally friendly. As a result, it began manufacturing a hybrid Silverado. The hybrid Silverado has many of the same characteristics of a traditional Silverado, including high torque and horsepower, yet it can get 18 mpg in the city and 24 mpg on the highway with its 5.3 L EcoTec3 engines. By making the Silverado greener, Chevrolet is not only preparing itself for tougher emissions regulations but also appealing to the market's demand for less-polluting trucks.

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Chevrolet SUV/Crossover Vehicles

SUVs, or sports-utility vehicles, became a hit during the 1990s as they provided owners with a sense of prestige and power. To meet this demand, GM created several SUV lines such as the Hummer. However, because SUVs require so much fuel, rising gas prices and greater concern for the environment contributed to their decline. As a result, GM discontinued its Hummer line along with several of its Chevrolet SUVs.

Although SUVs seemed to be on the decline, they appear to be gaining in popularity once more. In 2008, when fuel prices were high, many consumers began switching to hybrid vehicles and smaller cars with greater fuel efficiency. However, when gas prices dropped to under $4 a gallon, SUVs made a comeback—with some slight modifications. Auto companies such as GM began manufacturing SUVs with better fuel efficiency. The safety of SUVs has also improved. Thanks to the addition of stability control within SUV models, studies indicate that drivers of SUVs are less likely to die in a crash than those driving smaller cars; the death rate for SUV drivers dropped 66 percent after newer models were introduced.

This is good news for Chevrolet's SUVs, which include the Suburban and the Tahoe. First emerging in 1936, the Suburban is the oldest surviving vehicle model in the United States. Today the Suburban appears to be in the growth stage as a favorite among families. One likely reason is due to its safety features, which include up to seven airbags and OnStar Automatic Crash Response. The Tahoe is targeted more toward those who need lots of space and who travel in more rugged terrain. The Tahoe has been one of the most popular SUV models since the 1990s and was nominated as one of the best family cars of 2015. To attract eco-conscious consumers, the Tahoe model gets 23 mpg on the highway.

Chevrolet also combines features of smaller cars with those of SUVs through its crossover vehicles. One of its more recent successes is the Chevrolet Traverse. Released in 2008, the Chevrolet Traverse is targeted toward families. The Traverse seats eight and received high scores in crash safety from the National Highway Traffic Safety Administration. The Chevrolet Equinox crossover vehicle is unique as it is powered by hydrogen fuel cells, making it more fuel-efficient than its contemporaries. The Equinox is Chevrolet's second best-selling model after the Silverado. A newer high-tech model was released in 2016.

Chevrolet Volt

Chevrolet's product mix would not be complete without venturing into the EV industry. Its Chevrolet Volt, unleashed in 2010, runs on a battery but also uses gasoline once the electrical charge is depleted. The Volt's battery allows the vehicle to travel 38 miles on battery, and it has a total range of 380 miles.

Initial reviews of the Volt seemed positive. In 2011, it was named as the winner of the World's Green Car award. However, the Volt may take longer than anticipated to go from the introductory to the growth stage of the product life cycle. GM initially sold fewer vehicles than originally anticipated. Many Chevrolet dealers were hesitant to sell the Volt due to a perceived lack of local demand. Such obstacles are not uncommon with new products, as both dealers and consumers need to learn more about the product before making a commitment to purchase it. The high price tag of $41,000 also increased the risk of purchase. While the current interest in EVs is high, demand may take longer to catch up due to the high level of perceived purchase risk.

The Volt faced a more serious challenge when its lithium-ion battery proved to be problematic in crashes. The battery caught on fire after three government crash tests, but the fires themselves would not occur until days or weeks after the crashes. Further investigations revealed that the coolant line got damaged during the crash tests. Coolant leaked onto the battery wires, eventually causing a fire.

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After these safety issues came to light, GM took quick action to address the problem. It created a plan to increase the reinforcement surrounding the battery pack and issued a voluntary recall on more than 7,000 Volts already sold as well as more than 4,000 in its showrooms. It also provided loaner cars for consumers to use until their Volts were modified and offered to buy Volts back from customers who no longer wanted them. Although this quick action might have saved the Volt from an early demise, the initial safety challenges still had a significant effect on demand.

The safety issues have also provided threats and opportunities for the Chevy Volt's prime competitor, the Nissan Leaf. Although both the Leaf and the Volt are EVs, they are positioned differently. The Nissan is a truly electric car, whereas the Volt will run on gasoline if needed. GM's VP of marketing saw this as a major advantage, using it to position the Volt as "a car first and electric second" and claimed that the Volt can give drivers the peace of mind that they will not become stranded if they use up the electricity reserves. However, the battery fires reduced faith in the Volt and cast doubt on the EV industry as a whole. Nissan was quick to respond to these safety concerns by detailing the triple layer safety structure of its batteries. The Nissan Leaf appears to be in the lead in number of EVs sold, experiencing a sales record in 2014. With analysts predicting that only one will win in grabbing the majority of the U.S. market share, the stakes are high.

CHEVROLET'S BRANDING STRATEGY

Although the Chevrolet brand has evolved over the years, it maintains many of the same themes it started out with a century ago: a quality vehicle with deep roots in America's past. When Durant first envisioned Chevrolet, his desire was to create a low-priced vehicle that could compete head on with Ford. Therefore, one of its first slogans, "Quality at low cost," comes as no surprise. As Chevrolet vehicles became more popular with Americans, minus a dip during the Great Depression, the company wanted to firmly entrench the brand as a key part of American culture. It found part of this solution by associating itself with American sporting events. In 1935, Chevrolet started sponsoring the All-American Soap Box Derby, which it would continue to support for the next decade. Chevrolet vehicles driven by drivers such as Jeff Gordon and Jimmie Johnson would go on to become a common sight in racing circuits.

On the promotional side, Chevrolet adopted a patriotic theme with taglines such as "America's Best Seller, America's Best Buy" and "Baseball, hot dogs, apple pie and Chevrolet." One of its most popular taglines "Like a Rock" began in 1991 to describe its Chevrolet pickup truck. The tagline imbued the brand with a sense of strength and durability. Chevrolet would continue its American theme with its "An American Revolution" tagline adopted in 1994, "Chevy Runs Deep," and its most recent "Find New Roads."

The Chevrolet brand resonates with consumers, so much so that the company's marketers must exert caution when implementing changes. For instance, in 2010 GM decided the company would stop using the popular American nickname Chevy and only use Chevrolet in corporate communications and advertising. Although American consumers were encouraged to still use the popular nickname, employees were not to use Chevy internally. The reasoning behind this was that international buyers of Chevrolet tended to get "Chevy" and "Chevrolet" confused, believing that they were different cars. However, consumer backlash and managerial changes convinced GM to drop this plan.

Changing the tagline to "Chevy Runs Deep" was not free from criticism either. Chevrolet fans did not feel that the slogan was as strong as previous ones, and others were unsure about what it meant. This confusion caused GM to begin overhauling its

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marketing to clear up the confusion. It dropped the tagline in favor of “Find New Roads” to emphasize a more global perspective.

While Chevrolet modifies its taglines to fit certain countries, many of its taglines are used for multiple countries to create strong brand cohesiveness. Globally, the company positions its vehicles along four values: durability, value, practicality, and friendliness. In South Africa, Chevrolet commercials have emphasized familial values as well as excitement. Taglines include “Captiva. Made for Memories.” and “Where Will Chevrolet Take You?” Although Chevrolet has adopted more of a global brand strategy, it still customizes its branding to appeal to certain markets.

General Motors’ Rivalry with Ford

General Motors is one of the “Big Three” carmakers in the United States, along with Ford and Chrysler. Although Ford and Chrysler are formidable competitors to Chevrolet, most view Ford as being the more serious rival. Ford and Chevy vehicles are both considered to be practical and affordable cars, and although Chevy is generally viewed as being sportier than Ford, Ford’s sports vehicles like the Mustang are direct competitors to Chevy’s sports cars. While Chrysler came onto the scene later during the 1920s, Ford and Chevrolet are closer in age and have been competing since the inception of Chevrolet.

This highly competitive rivalry has challenged many of Chevrolet’s branding strategies. For instance, Ford is also deeply entrenched in American culture. Many view the Model T as the first American car, although it would be more accurate to say it was the first one produced for the masses. The unproven statement by founder Henry Ford regarding the Model T, “You can paint it any color, so long as it’s black,” is remembered nearly a century later. Ford also claims that its Ford Aerospace engineers and technicians helped place a man on the moon by helping to design and provide services for NASA’s Mission Control Center. Supporters of Ford are more likely to view Ford as a greater part of America’s heritage than Chevrolet.

From the beginning, Ford has also made a name for itself in racing history, starting with founder Henry Ford’s 1901 win against professional driver Alexander Winton in a vehicle he manufactured himself. Ever since racing has become an important part of Ford’s DNA. The car company has had a notable presence in the Indy 500, Formula One, and NASCAR series, with drivers like Tom Kendall, Jacques Villeneuve, John Force, and even Paul Newman choosing to race Ford vehicles. Creating solid connections to America’s past is an important part of Ford’s branding strategy.

Ford and GM also take different approaches toward marketing. For instance, Ford takes a family branding approach to its vehicles, placing the Ford name along with the brand of the vehicle on the car. GM, however, began embracing invisible brand architecture beginning in 2009. Prior to this time, GM was placing its “Mark of Excellence” logo on its vehicles to connect them with the parent company. But in 2009, GM expressed its intention of allowing its vehicles to stand on their own. New Chevrolet vehicles did not have visible affiliation with GM, nor did GM’s other brands. This branding strategy has both advantages and disadvantages. Family branding informs consumers when the same company offers a slate of different vehicles. If the consumer has a favorable impression of the company or even an individual model, then he or she is likely to carry that perception over to another company model. On the other hand, family branding risks contaminating the entire family if one product in the mix is perceived to be inferior. In the case of GM, the company’s bankruptcy and subsequent bailout had the ability to contaminate its brands of vehicles, in spite of their individual merits. By adopting invisible brand architecture, GM is reducing the risk of brand contamination.

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INTERNATIONAL MARKETING

Chevrolet sold nearly 10 million vehicles worldwide in 2014, its second year for record global sales. While Chevrolet has tried to create a consistent brand image across the world, its products differ by market. For instance, South Africa Chevrolet's product line includes the Chevrolet Spark, Spark Lite, Aveo Sedan, Aveo Hatch, Utility, Cruze, Orlando, Sonic, Captiva, and Trailblazer. In Brazil Chevrolet's product line includes the Camaro as well as the Chevrolet Cruze, Prisma, Cruze Sport6, Celta, Cobalt, Onix, and Classic. The different models appeal to the differing tastes of Chevrolet's various target markets.

Although for years Chevrolet has portrayed itself as an American brand, in reality the brand has become truly globalized. In fact, marketers at Chevrolet are now trying to embed the Chevrolet brand into other cultures just as they set off to make it a core part of American culture. In an attempt to create greater brand awareness, GM rebranded Daewoo—a South Korean brand that GM acquired in the early 2000s—as Chevrolet. Despite the fact that sales of Daewoo vehicles had increased in recent years, GM recognized that many South Koreans lacked awareness of the Chevrolet brand. It hopes that recasting Daewoo as Chevrolet will increase awareness and allow Chevrolet to compete against competitors.

Chevrolet's sales are still highest in the United States, followed by China. China is now the second largest market for Chevrolet and is the largest market in the world for vehicles. Chevrolet sells a variety of vehicles in China, including the Volt, Camaro, Malibu, Trax, Epica, Cruze, Aveo, and Sail 3. GM has entered into several joint ventures with Chinese companies in order to sell Chevrolet vehicles within the country. China is also a lucrative market for EVs, and Chevrolet is optimistic about how the Chevy Volt will fare. Yet the company also faces many challenges in its plans to introduce EVs into China. The Chinese government has mandated that foreign EV automakers enter into joint ventures with domestic companies to produce EVs in China. Such joint ventures offer many advantages but also require Chevrolet to share some of its trade secrets with its partners. For this reason, GM has decided to import the Chevy Volt, forgoing certain benefits rather than sharing the Volt's technologies. However, manufacturing within the country is still a future possibility.

Another challenge for Chevrolet relates to customization. Customizing vehicles to different markets takes time, and GM managers want to increase production and decrease the commercialization process. This has led GM to consider a new design for its vehicles that incorporates "global core architecture." Such a move would enable GM brands to create a more standardized design with slight adaptations for different markets. This would save GM both time and money, but because cultural tastes can significantly differ, a globalized design is not without risks. It is uncertain whether Chevrolet can create a standardized vehicle that will be accepted by several different cultures.

CHALLENGES AND RECOVERY

After nearly a century in business, Chevrolet faced its greatest threat with GM's bankruptcy in 2008. The company required a massive $50 billion government bailout, and although GM has rebounded, its reputation took a while to recover. According to former GM CEO Dan Akerson, the company "failed because we failed to innovate." Ford, the only one of the Big Three automakers that did not accept a government bailout, took a combative approach against its competitors in its advertising. The company filmed one ad of a customer who had just bought a new Ford pickup truck as saying, "I wasn't going to buy another car that was bailed out by our

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government. I was going to buy from a manufacturer that's standing on their own: win, lose, or draw." Although the commercial was later pulled from the air (Ford stated that it had run its course), this viewpoint represented the sentiments of many Americans who felt that GM and Chrysler had overextended themselves and then depended upon taxpayers to bail them out for their mistakes.

Despite these dark times for GM, company leaders viewed Chevrolet as an innovation powerhouse and believed the brand would bring GM back from the brink of collapse. The recovery, however, was painful for GM. The company dropped half its brands from its product mix, including Pontiac, Hummer, Saturn, and Saab. Although this gives customers fewer vehicle brands from which to choose, it might benefit Chevrolet in the long run as GM can now focus more upon modifying its remaining brands.

Such modifications will be important as environmental conditions in the market continue to change. For instance, new and impending regulations require automakers to create vehicles that are more fuel efficient. By 2025 vehicles must be able to reach 54.5 mpg. Such changes will be costly and demand that GM take action now. Thus, new Chevrolet vehicles are likely to be lighter and possess more energy saving technologies. Such modifications are essential to ensuring that Chevrolet meets both consumer demands and the regulatory demands of the government.

2014 PRODUCT RECALLS

Despite GM's recovery from the recession, the year 2014 dealt another major blow to GM's reputation. In January 2014, Dan Akerson stepped down as CEO of GM. He was replaced by Mary Barra, who had served as GM's Executive Vice President of Global Product Development, Purchasing and Supply Chain. Mary Barra became the first female CEO of GM as well as the first female to lead any major automobile company.

Shortly after Barra assumed leadership, GM issued a recall of 2.6 million Chevy Cobalts. The problem involved a flaw with the ignition that could cause it to inadvertently switch to the accessory position. This could cause the vehicle to stall suddenly, disabling safety features such as the airbag, power steering, and braking. The initial recalls were just the beginning. More recalls were issued on other models for similar reasons. Estimated deaths attributed toward accidents caused by ignition switch malfunctions vary between 13 and 31. Many of these recalls involved Chevy vehicles. Case Exhibit 9.2 describes the vehicles and the reasons behind their recall.

Although recalls are a serious issue, the situation became more problematic when evidence surfaced that employees had known about the defective components since 2004. Despite this knowledge, a decade passed before any sort of recall was issued. This seriously jeopardized driver safety, and GM faced a resulting maelstrom of criticism. The company had developed a snap-on cover to prevent the switches from inadvertently switching to the accessory position but failed to issue a recall. Instead, it told its dealers to install the covers if customers complained. Car owners were not informed of the potential dangers.

This knowledge changed the recall from a product quality issue into a case of wide-scale misconduct that harmed the well-being of consumers. CEO Mary Barra was called before Congress to testify about how much GM knew about the issue and why a recall was not issued until 10 years after the defects were first discovered. More than 80 lawsuits were filed against GM.

GM conducted an internal investigation and found that the company had been negligent in its duties toward consumers. The culture of GM had taken an indifferent attitude toward safety issues and even dissuaded employees from bringing bad

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CASE EXHIBIT 9.2 Sample of 2014 Chevrolet Recalls

Car Model	Problem
Chevrolet Caprice (2011–2013)	Ignition switch flaw
Chevrolet Impala (2014)	Electrical issue could cause power steering to malfunction when vehicle is started
Chevrolet Malibu (1997–2005); Impala and Monte Carlo (2004–2008)	Key can be bumped out of position when driving
Chevrolet Silverado HD (2007–2011)	Electrical systems in vehicles equipped with auxiliary battery may overheat and cause a fire
Impala (2006–2014); Monte Carlo (2006–2007)	Ignition switch flaw could cause to turn off unexpectedly, disabling safety features and power steering and breaking
Camaro (2010–2014)	Key can be bumped out of position when driving
Malibu (2004–2012); Malibu Maxx (2004–2007)	Wiring flaw can cause brake lights to fail, disable other systems
Cobalt (2005–2010); Chevrolet HHR (2006–2011	Ignition cylinder flaw can cause key to suddenly fall out
Malibu and Malibu Maxx (2004–2006); Malibu (2008–2009); Cobalt (2010); Chevrolet HHR (2009–2010)	Sudden loss of power steering can lead to crash
Chevrolet HHR (2008–2011); Cobalt (2008–2010)	Ignition switch problems
Cobalt (2005–2007); Chevrolet HHR (2006–2007)	Ignition switch flaw can cause vehicles to turn off unexpectedly, disabling safety features and power steering and braking

SOURCE: Gregory Wallace, "Every General Motors recall in 2014," CNN Money,October 8, 2014, http://www.cnn.com/interactive/2014/05/us/gm-recalls/ (accessed April 24, 2015).

news to the attention of management. One whistleblower claimed that he was demoted after he pressed for recalls due to vehicle defects. Other employees indicated they feared retaliation for bringing up product quality issues. About 15 employees were dismissed for their failure to take action after becoming aware of the defects.

The recalls have come at a bad time for GM. While it faces strong demand in overseas markets, its market share in the United States is at historic lows, and the company has weaker profit margins than rivals. News of the recalls caused GM stock to decrease 14.6 percent during the year, while Ford's rose 0.5 percent. Perhaps most damaging is the blow to GM's reputation. Controversy continues to surround how much top management knew about the issue. According to Mary Barra, top management executives issued the recall as soon as they learned about the product defects in early January 2014. She also explained that in the early 2000s people had different views of stalling and believed that a car without power steering could still be steered. It was not until later that the real dangers were finally realized. She reassured the public that the company's crisis management team was taking steps to respond more quickly to problems and would prevent similar defects from reoccurring.

In the beginning of 2015, GM again issued three vehicle recalls due to ignition switch problems. More than 2,200 claims have been filed against GM, and it was listed as number 13 on America's Most Hated Companies list, according to a Harris poll. However, despite the massive negative publicity, the company has also been admired for its leadership during the crisis. Mary Barra was praised for how she handled the situation, and many members of the public believe she reacted with honesty and compassion for those who were affected. Under her leadership, it is entirely possible that GM can weather the storm and restore confidence in the Chevrolet brand.

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CONCLUSION

The Chevrolet brand is a model to which marketers aspire. Unlike so many other brands, it has lasted for more than a century due to its innovative product modifications and ability to rebound from failures. Despite the recent setbacks with vehicle recalls, strong leadership is helping GM navigate through the crisis. It must continue to seize market opportunities, constantly modify its products, and adapt its brand to changing customer tastes—all while assuming its responsibility for driver safety and a quality product. Successfully meeting these criteria could enable the Chevrolet brand to succeed for another century.

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QUESTIONS

1. Evaluate the diversity of vehicle types and sizes that are sold under the Chevrolet brand name. What strengths and weaknesses are evident in Chevy's product mix?
2. How has Chevrolet strategically managed its brand and reputation over the last 100 years? What opportunities and threats will affect Chevy's branding and reputation in the future?
3. What specific marketing strategies would you recommend that might help Chevrolet last another 100 years? How important is Chevy's legacy of innovation to the brand's future?

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