Fundamentals of Successful Marketing

An introduction to Marketing Concepts

Produced by

Roy Larke
Waikato Management School
University of Waikato

THE UNIVERSITY OF
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Te Whare Wānanga o Waikato

An Introduction to the Fundamentals of Successful Marketing

AN INTRODUCTION TO THE FUNDAMENTALS OF SUCCESSFUL MARKETING

ROY LARKE

University of Waikato
Hamilton, New Zealand

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This text is an adapted remixed version of Lumen Learning's Principles of Marketing. It was first adopted at Nova Scotia Community College (NSCC) in 2020 and subsequently enhanced and improved in 2021 with support from the NSCC School of Business and Creative Industries faculty. The edition adapted here was first developed by the Walton College of Business, University of Arkansas. We would like to acknowledge and thank all previous authors and contributors to this work.

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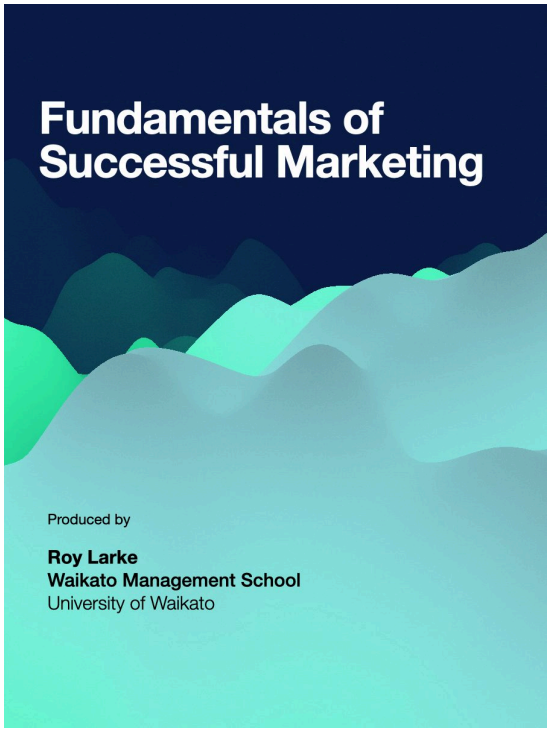

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ABOUT THE AUTHOR

Roy Larke

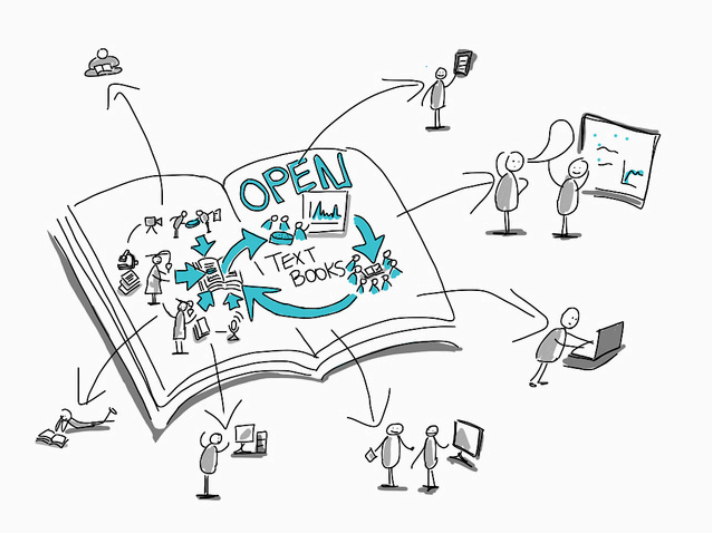
This Open Textbook was prepared by the marketing staff at University of Waikato. If you have questions about the content, please contact the individual authors:

Roy Larke: rlarke@waikato.ac.nz

DEDICATION

The Marketing faculty of the Waikato Management School dedicate this book to our students. We acknowledge the previous contributors who provided the foundation for us to collaborate in making high-quality educational materials available at no cost to students.

Our hope is that students will use the textbook to advance their learning and to improve the quality of life in their communities.



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CHAPTER 1: WHAT IS MARKETING?

Learning Objectives

- Define marketing
- Identify evidence of marketing in everyday life
- Demonstrate a clear understanding of the marketing concept
- Describe the role of marketing in building and managing customer relationships
- Describe how different types of organizations, such as non-profits, consumer product (B2C) firms and business-to-business (B2B) organizations, use marketing
- Explain how marketing creates value for the consumer, the company, and society

WHY IT MATTERS: WHAT IS MARKETING?

Learning Objectives

Explain what marketing is and how it's used

When you hear the term "marketing," what comes to mind?

Based on what you know about marketing right now, what one word would you use to describe it? Take a moment to write it down. We'll come back to it shortly.

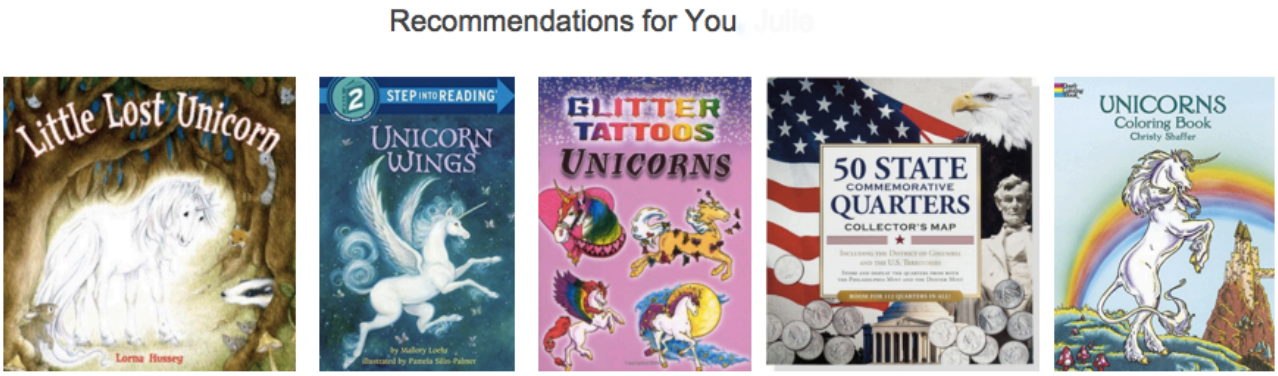
Marketing is a tool used by companies, organisations, and people to shape our perceptions and persuade us to change our behaviour. The most effective marketing utilises a well-designed strategy and a variety of techniques to influence how people perceive and interact with the product or service in question. Less-effective marketing causes people to turn off, tune out, or not even notice.

Why should you care about marketing? Marketing is a pervasive force in modern society, and it can have a profound impact on influencing our actions and motivations. Consider these points:

Marketing sells products.

Marketing informs organisations about what people want, and it informs people about products and services available to feed our wants and needs. From overt advertising to covert "recommendations" about things you might like based on other things you've purchased, marketing shows us different choices and tries to influence our buying behaviour.

As you view its site, Amazon.com gleans information about you and what you're shopping for. Then it suggests other products that might interest you: items similar to what you viewed, special deals, and items that other people bought when shopping for the same things as you. The genius of this technique is that it's marketing masquerading as helpful information sharing.



Screenshot of Amazon recommendation engine

Marketing changes how you think about things.

Effective marketing shapes people's perceptions of the world around them, for better or for worse. Marketing can cause you to think differently about an issue, product, candidate, organisation, or idea. When you are attuned to marketing forces and practices, you can exercise better judgment about the information you receive.

The ad below lets you speculate about what the checkboxes might be about before revealing the truth at the very end. They shift expectations and showcase that presumptions about looks are irrelevant when it comes down to the important things in life.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=48#oembed-2

Marketing creates memorable experiences.

Some of the most imaginative marketing is not a message or an image. Instead, it's an entire experience that gives people a deepened understanding, enjoyment, or loyalty to whomever is providing the experience.

This IKEA event created a slumber party atmosphere for avid fans of the home furnishings store, inviting them to stay overnight in the store and live temporarily in the store's display. It's a great way to encourage people to interact more deeply with your product.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=48#oembed-1

You can view the transcript for "IKEA BIG Sleepover". (opens in new window)

Marketing alters history.

Marketing has been known to unleash attitudes and forces that alter the course of history. Today, marketing plays a pronounced role in political campaigns, policy debates, and mobilising citizen support for public affairs initiatives.

The Barack Obama "Hope" poster became globally recognisable and represented his 2008 presidential campaign. The image was created by Shepard Fairey, who took historical inspiration from the well-known JFK portrait, where he is posed similarly. [1] Having a political campaign that stands out not only helps with engagement from potential voters, but can also serve as a memorable example for the ones to come in the future as they go down in history for being outstanding and different. The image today still stands strong as most people have a positive association with it and because of the message behind it that resonated strongly with them.[2]

Marketing can use a variety of elements to shape perceptions and behaviour: words, images, design, experiences, emotions, stories, relationships, humour, sex appeal, etc. And it can use a wide variety of tactics, from advertising and events to social media and search engine optimisation (SEO). Often, the purpose is to sell products, but as you can see from the examples above, the goal of any specific marketing effort may have little to do with money and much more to do with what you think and do.

Go back to that word you jotted down to describe marketing at the top of the page. Now that you've had a little more exposure to the concept, what word comes to mind to describe "marketing"? Is it the same word you chose earlier, or are you starting to think differently?

By the time you finish this course, you will have a broader understanding of marketing beyond TV commercials, billboards and those annoying pop-up ads on the websites you visit. You'll learn how to see marketing for what it is. You'll learn how to be a smart consumer and a smart user of marketing techniques when the need for them arises in your life.

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1. Fisher III, William; Cost, Frank; Fairley, Shepard; Feder, Meir; Fountain, Edwin; Steward, Geoffrey; Sturken, Martina, "Reflections on the Hope Poster Case", Harvard Journal of Law and Technology. http://jolt.law.harvard.edu/articles/pdf/v25/25HarvJLTech243.pdf

2. 3. Paragraph adapted from: Barack Obama "Hope" poster. (2021, May 6). In *Wikipedia*. https://en.wikipedia.org/wiki/Barack_Obama_%22Hope%22_poster. Barack Obama "Hope" poster, originally by Shepard Fairey.

1.2 MARKETING DEFINED

Learning Objectives

- Explain how the marketplace addresses customer wants and needs by creating opportunities for the exchange of products, services, and experiences
- Describe the role marketing plays in facilitating the exchange of value
- Define marketing

Marketing is more than just banner ads, television commercials, and people standing on roadsides dressed up like the Statue of Liberty during tax time. It's a complex set of activities and strategies that influences where we live, what we wear, how we conduct business, and how we spend our time and money. Marketing activities are conducted in an environment that changes quickly both in terms of customer demand and the methods by which consumers obtain information and make purchases. However, before you learn about these complex variables, you will need a good working definition of marketing. The following video has one (actually two).

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You can view the transcript for "What Is Marketing? Two Answers To This One Question". (opens in new window)

Let's move ahead so that you can gain a richer definition and understanding of marketing.

Learning Activities

- Reading: Marketing Defined

What Is Marketing

Marketing is a set of activities related to creating, communicating, delivering, and exchanging offerings that have value for others. In business, the function of marketing is to bring value to customers, whom the business seeks to identify, satisfy, and retain. This course will emphasize the role of marketing in business, but many of the concepts will apply to non-profit organizations, advocacy campaigns, and other activities aimed at influencing perceptions and behaviour.

The Art of the Exchange

In marketing, the act of obtaining a desired object from someone by offering something of value in return is called the exchange process. The exchange involves:

- **the customer (or buyer):** a person or organization with a want or need who is willing to give money or some other personal resource to address this need
- **the product:** a physical good, a service, experience, or idea designed to fill the customer's want or need
- **the provider (or seller):** the company or organization that is offering a product (a good, service, experience, or idea) to satisfy a need
- **the transaction:** the terms around which both parties agree to trade value-for-value (most often, money for product)

Individuals on both sides try to maximize rewards and minimize costs in their transactions, in order to gain the most profitable outcomes. Ideally, everyone achieves a satisfactory level of reward.

Marketing creates the goods and services that the company offers at a price to its customers. The entire bundle consists of a tangible good, an intangible service, and the price is the company's offering. When you compare one car to another, for example, you can evaluate each of these dimensions—the tangible, the intangible, and the price—separately. However, you can't buy one manufacturer's car, another manufacturer's service, and a third manufacturer's price when you actually make a choice. Together, the three make up a single firm's offer.

Marketing is also responsible for the entire environment in which this exchange of value takes place. Marketing identifies customers, their needs, and how much value they place on getting those needs addressed. Marketing informs the design of the product to ensure it meets customer needs and provides value proportional to what it costs. Marketing is responsible for communicating with customers about products, explaining who is offering them and why they are desirable. Marketing is also responsible for listening to customers and communicating back to the provider about how well they are satisfying customer needs and opportunities for improvement. Marketing shapes the location and terms of the transaction, as well as the experience customers have after the product is delivered.

Marketing Creates Value for Customers

According to the influential economist and Harvard Business School professor Theodore Levitt, the purpose of all business is to "find and keep customers." Marketing is instrumental in helping businesses achieve this purpose. It's a

way of thinking about business, rather than just a collection of techniques. It's much more than just advertising and selling stuff and collecting money. Marketing generates value by creating connections between people and products, customers and companies.

This happens by *identifying*, *satisfying*, and *retaining customers*, which are also the main roles of marketing.

Before you can create anything of value, first you must **identify** a want or need that you can address, as well as the prospective customers who possess this want or need.

Next, you work to **satisfy** these customers by delivering a product or service that addresses these needs at the time customers want it. The key to customer satisfaction is making sure everyone feels they benefit from the exchange. Your customer is happy with the value they get for what they pay. You are happy with the payment you receive in exchange for what you provide.

Effective marketing doesn't stop there. It also needs to **retain** customers by creating new opportunities to win customer loyalty and business.

Source: Lumen Learning. Marketing Defined, in Module 1. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-marketing-defined/

Marketing encompasses a variety of activities focused on accomplishing these objectives. How companies approach and conduct day-to-day marketing activities varies widely. For many large, highly visible companies, such as Disney-ABC, Proctor & Gamble, Sony, Toyota, and AT&T, marketing represents a major expenditure. Such companies rely on effective marketing for business success, and this dependence is reflected in their organizational strategies, budget, and operations. Conversely, for other organizations, particularly those in highly regulated or less competitive indus-

tries such as utilities, social services, medical care, or businesses providing one-of-a-kind products, marketing may be much less visible. It could even be as simple as a website or an informational brochure.

There is no one model that guarantees marketing success. Effective marketing may be very expensive, or it may cost next to nothing. What marketing must do in all cases is to help the organization identify, satisfy, and retain customers. Regardless of size or complexity, a marketing program is worth the costs only if it facilitates the organization's ability to reach its goals.

1.3 MARKETING IN ACTION

Learning Objectives

- Recognize marketing activities in daily life
- Explain the differences between marketing, advertising, branding, and sales
- Identify evidence of marketing in everyday life

In this section, you'll get a chance to explore the concept of marketing further and see how it's at work in the world around you. It may surprise you to discover how much the term encompasses.

Learning Activities

- Reading: Marketing in Action

Marketing is all around you. Enter a store, walk down the street, browse the Internet, or glance through your closet. Whether you realize it or not, some aspect of marketing is likely at work in each of these activities.

In the following scenarios, consider the lengths to which marketers go to identify, satisfy, and retain you as a customer. See if you can draw examples from your own experience that demonstrate marketing in action.

Scenario #1: Life on the Streets

You're walking down an urban street and, on impulse, you head into a trendy-looking clothing store. Right away, you pick out the obvious signs of marketing: shop signs, posters, window displays, sale notices, product displays, and brand names. Then come the less obvious, "environmental" things: the interior design, colours, aromas, the background music, announcer messages, the pricing structure, the way store clerks approach you–or leave you alone. All these details are part of a coordinated marketing strategy aimed at creating an ideal environment to separate you from your money. You may or may not be aware of how this is happening, but rest assured it is at work.

Scenario #2: Virtual Reality

Suppose you're taking a short break from studying and doing a little online browsing—there's news to read and social media to check. And you need to find a birthday present for your aunt. What kinds of marketing are ready to intrude?

What jumps out at you immediately are the ads on the Web sites you visit: TikTok, Instagram, email, even your Google results. Annoyingly, you have trouble finding the X to close a pop-up banner ad that has taken over your screen. But that's not all.

Before you're allowed to navigate to an article you want to read, you're invited to take a "very short" user feedback survey. Back to your aunt: you head to Amazon.com to read a couple of customer reviews of the book you have in mind for her. Amazon recommends several other books, and one looks ideal. You compare prices at other booksellers, but Amazon beats them, so you place your order. In the end, you find exactly what you want, and it will be shipped that day. Thank you, marketing!

Screenshot of Amazon page for the book on Mini Farming

Scenario #3: In My Room

Now imagine you're back at home, hanging out in your room. How is marketing invading your personal space?

In the privacy of your own home, the presence of marketing might seem less obvious, but it's definitely there. Pouring yourself a bowl of cereal, you see the back of the cereal box is inviting you to enter a sweepstakes contest. When you check social media, a few ads slip by, even though you've installed a pop-up blocker twice. You decide to watch Peacock, which requires sitting through ads about other shows you don't want to miss or products you need to buy. As you're becoming more attuned to the presence of advertising, you start to notice how all the characters in your favorite sitcom are drinking Pepsi products. Is that just a coincidence? Probably not.

You look at the clock and realize it's time to change for work. Opening your closet, you notice the logos on your favorite shirts. Not only do you love how those clothes fit, but you recognize an emotional connection: those clothes–and brands–make you feel confident and attractive. How's that for invasive marketing?

Marketing Is Everywhere

The purpose of this course is *not* to start making you suspicious or even paranoid about the influence of marketing in your everyday life.

In fact, marketing can play an important and beneficial role by connecting you to information, people, and things. It can make you aware of things you care about but wouldn't otherwise encounter. When marketing is working well, the new information it brings to you also aligns with what you're already interested in doing or exploring.

At times, marketing might feel more like an assault than an assist. Visual images on posters or billboards scream for your attention. Sponsor announcements persistently remind you which organizations are making your entertainment possible. Sleek product designs beckon you to try on clothing or try out gadgets. Sales promotions create a sense of urgency to spend now or lose out.

The right balance between "helpful" and "annoying" varies, depending on who you are and what type of relation-

ship you have with the entity doing the marketing. When the balance starts to get off-kilter, it's a clue that something isn't working as well as it should in the marketing strategy and execution.

Marketing Activities

Marketing encompasses all the activities described above. It covers an entire spectrum of techniques focused on identifying, satisfying, and retaining customers. For people new to the concept of marketing, it can be easy to confuse marketing with some of the powerful and visible tools that marketers use.

Marketing vs. Advertising

Advertising uses paid notices in different forms of media to draw public attention to a company, product, or message, usually for the purpose of selling products or services.[1] While advertising is a common and useful tool for marketing, it's just one of many tactics marketers may use to achieve their goals.

Marketing vs. Branding

Branding is the practice of "creating a name, symbol or design that identifies and differentiates a product from other products." [2]. A brand is a powerful tool for shaping perceptions about a company or product in order to attract and retain loyal customers by standing out. Marketing processes and activities build brands, and branding is an important strategic consideration in any marketing effort. At the same time, marketing refers to a broader scope of activity than just branding.

Marketing vs. Sales

Sales refer to the process of actually selling products or services, leading up to the point where the exchange of value takes place. Effective marketing aligns well with the sales process and leads to increased sales. While marketing and sales are intertwined, the scope of marketing is generally considered broader than just supporting sales. Marketing helps identify prospective customers and prepares them to enter the sales process as informed, receptive, qualified sales leads.

This course will explore all these marketing activities in much more detail to give you a clear picture of how these tools can be employed to support an organization's broader marketing goals.

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1. "Advertising." The Free Dictionary. Accessed September 10, 2019. http://www.thefreedictionary.com/advertising

2. "Branding". Entrepreneur. Accessed May 11, 2021. https://www.entrepreneur.com/encyclopedia/branding

1.4 THE MARKETING CONCEPT

Learning Objectives

Demonstrate a clear understanding of the marketing concept

You're probably very skilled at recognizing the signs of marketing. We've all had the experience of being on the receiving or customer end of marketing efforts—whether through advertising or sales tactics. In this section you'll get to understand the marketing orientation, or *marketing concept*, from the standpoint of setting priorities and doing business. You'll learn that the marketing orientation is a mindset grounded in one thing: knowing and satisfying the customer. Not all businesses follow a marketing orientation, however—some are focused on other priorities, such as product and production. In this section you'll see what sets the marketing concept apart.

Learning Activities

- Reading: The Marketing Concept

Company Orientation and the Marketing Concept

In every transaction between a buyer and seller, there is an underlying dynamic that governs the parties' perception of the exchange. Sometimes the exchange is very one-sided, with one party exercising most of the power and the other only in a position to react. In some cases, deception and lying permeate the exchange. Other exchanges are more equitable, with each party receiving about the same value as the other. The customer's need is satisfied, and the business makes a reasonable profit.

With the emergence of the internet and e-commerce, the nature of the exchange has changed dramatically for many businesses and customers. Today, people have access to far more and far better information than they did previously. They also have many more choices. To remain competitive, businesses must match or exceed the practices of competitors that are quick, smart, and open twenty-four hours a day.

A central aim of marketing is to help organizations understand and respond to customer needs and expectations, while keeping the customer informed about how the organization can address those needs. When you employ marketing correctly, you know that this process is easier if you keep in constant contact with the customer. It doesn't necessarily mean that you must write and call regularly (although it could), but that you must take steps to know a great deal about the characteristics, values, interests, and behaviors of its customers. It means that you monitor these factors and how they change over time. Although this process is not an exact science, there is evidence that marketers who do this well tend to succeed.

The Marketing Concept

An organization adopts the marketing concept when it takes steps to know as much about the consumer as possible, coupled with a decision to base marketing, product, and even strategy decisions on this information. These organizations start with the customers' needs and work backward from there to create value, rather than starting with some other factor like production capacity or an innovative invention. They operate on the assumption that success depends on doing better than competitors at understanding, creating, delivering, and communicating value to their target customers.

The Product Concept

Both historically and currently, many businesses do not follow the marketing concept. For many years, companies such as Texas Instruments and Otis Elevator have followed a *product orientation*, in which the primary organizational focus is technology and innovation. All parts of these organizations invest heavily in building and showcasing impressive features and product advances, which are the areas in which these companies prefer to compete. This approach is also known as the *product concept*. Rather than focusing on a deep understanding of customer needs, these companies assume that a technically superior or less expensive product will sell itself. While this approach can be very profitable, there is a high risk of losing touch with what customers actually want. This leaves product-oriented companies vulnerable to more customer-oriented competitors.

The Sales Concept

Other companies follow a sales orientation. These businesses emphasize the sales process and try to make it as effective as possible. While companies in any industry may adopt the sales concept, multilevel-marketing companies such as Herbalife and Amway generally fall into this category. Many business-to-business companies with dedicated sales teams also fit this profile. These organizations assume that a good salesperson with the right tools and incentives is capable of selling almost anything. Sales and marketing techniques include aggressive sales methods, promotions, and other activities that support the sale. Often, this focus on the selling process may ignore the customer or view the customer as someone to be manipulated. These companies sell what they make, which isn't necessarily what customers want.

The Production Concept

The production concept is followed by organizations that are striving for low-production costs, highly efficient processes, and mass distribution (which enables them to deliver low-cost goods at the best price). This approach came into popularity during the Industrial Revolution of the late 1800s when businesses were beginning to exploit opportunities associated with automation and mass production. Production-oriented companies assume that customers care most about low-cost products being readily available and less about specific product features. Henry Ford's success with the groundbreaking assembly-line–built Model T is a classic example of the production concept in action. Today this approach is still widely successful in developing countries seeking economic gains in the manufacturing sector.

Seeing the Whole Picture

Savvy businesses acknowledge the importance of product features, production, and sales, but they also realize that the broader focus of the three-step process described below will help them be most effective:

1. Collect information on an ongoing basis about customers' needs and competitors' capabilities;
2. Share the information across departments; and
3. Use the information to create a competitive advantage by increasing value for customers.

This is a true marketing orientation.

1.5 MARKETING AND CUSTOMER RELATIONSHIPS

Learning Objectives

- Define the concept of customer lifetime value
- Explain why customer relationship building is a central purpose of marketing
- Explain engagement marketing and how it alters a customer's relationship with a brand.
- Describe the role of marketing in building and managing customer relationships

The marketing concept provides exactly the right mindset for what we ultimately want to achieve: building strong relationships with customers. Next we'll explore how marketing plays a central role in each stage of building and managing customer relationships.

Learning Activities

- Reading: Marketing and Customer Relationships

Customer Relationship Management: A Strategic Imperative

We have stated that the central purpose of marketing is to help organisations identify, satisfy, and retain their customers. These three activities lay the groundwork for what has become a strategic imperative in modern marketing: customer relationship management.

Building relationships between customers and companies is a natural outgrowth of the marketing concept, which orients entire organisations around understanding and addressing customer needs. But only in recent decades has technology made it possible for companies to capture and utilise information about their customers to such a great extent and in such meaningful ways. The internet and digital social media have created new platforms for customers and product providers to find and communicate with one another. As a result, there are more tools now than ever before to help companies create, maintain, and manage customer relationships.

Maximizing Customer Lifetime Value

Central to these developments is the concept of customer lifetime value. Customer lifetime value predicts how much profit is associated with a customer during the course of their lifetime relationship with a company.[1] One-time customers usually have a relatively *low customer lifetime value*, while frequent, loyal, repeat-customers typically have a *high customer lifetime value*. Companies develop strong, ongoing relationships with customers who are likely to have a high customer lifetime value *through marketing*.

Marketing applies a customer-oriented mindset and, through specific marketing activities, attempts to establish initial contact with customers and guide them through various stages of the relationship, ultimately increasing lifetime customer value. These activities are summarised below.

Typical Marketing Activities during each Stage of the Customer Relationship

Stage 1: Meeting and Getting Acquainted

- Find desirable target customers, including those likely to deliver a high customer lifetime value
- Understand what these customers want
- Build awareness and demand for what you offer
- Capture new business

1. "Customer Lifetime Value." Cambridge Dictionary. Accessed September 10, 2019. http://dictionary.cambridge.org/us/dictionary/english/customer-lifetime-value

Stage 2: Providing a Satisfying Experience

- Measure and improve customer satisfaction
- Track how customers' needs and wants evolve
- Develop customer confidence, trust, and goodwill
- Demonstrate and communicate competitive advantage
- Monitor and counter competitive forces

Stage 3: Sustain a Committed Relationship

- Convert contacts into loyal repeat customers, rather than one-time customers.
- Anticipate and respond to evolving needs.
- Deepen relationships, expand the reach of and reliance on what you offer.

Another benefit of effective customer relationship management is that it reduces business costs and increases profitability. As a rule, winning a new customer's business takes significantly more time, effort, and marketing resources than it does to renew or expand business with an existing customer.

Customer Relationship As Competitive Advantage

As the global marketplace offers an increasing number of choices for consumers, relationships can become a primary driver of why a customer chooses one company over others (or chooses not to choose at all). When customers feel satisfied with and have an affinity for a specific company or product, it simplifies their buying choices.

For example, why might a woman shopping for a cocktail dress choose to go to a local boutique rather than Walmart, or pick from an army of online stores? Possibly because she prefers the selection of dresses at the boutique and the store's atmosphere. It's much more likely, though, that thanks to the local boutique's practices, this shopper has a relationship with an attentive sales associate who has helped her find great outfits and accessories in the past. She is also aware of the store's customer-friendly return policy, which may be useful if she needs to return an item.

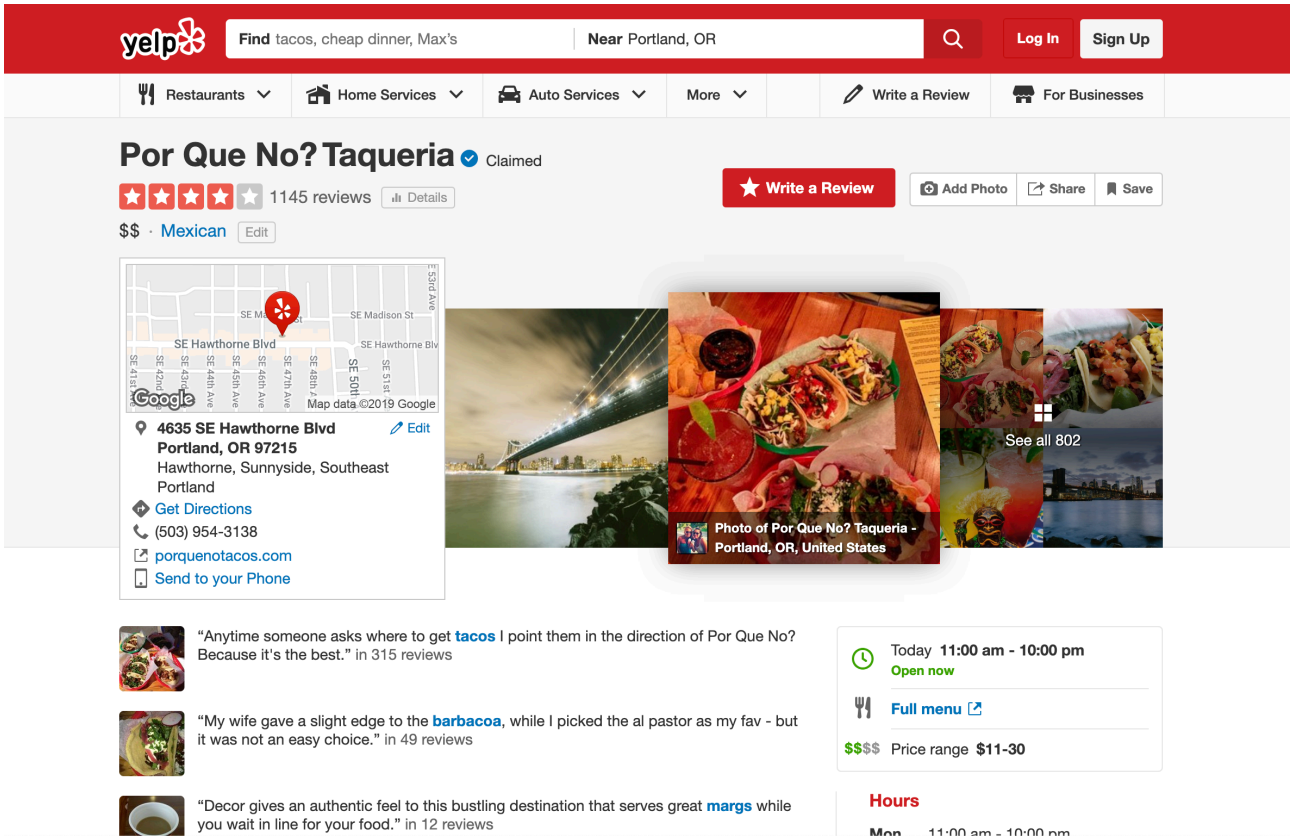
A successful local boutique can deliver such satisfactory experiences that its customers return again and again. A consistently positive customer experience matures into a relationship in which the customer becomes increasingly receptive to the company and its products. Over time, the customer relationship gives the boutique a competitive advantage over other traditional department stores and online retailers.

When Customers Become Your Best Marketing Tool

Customer testimonials and recommendations have always been powerful marketing tools. They often work to persuade new customers to give something a try. In today's digital media landscape, there is an unprecedented opportunity for companies to engage customers as credible advocates. When organisations invest in building strong customer relationships, these activities become particularly fruitful.

For example, service providers such as restaurateurs, physical therapists, and dentists frequently ask their regular

patrons and patients to write reviews about their real-life experiences on popular recommendation sites like Google, Yelp, Foursquare, or TripAdvisor. Product providers do the same on sites like Amazon and CNET.com. Although companies risk getting a bad review, they usually gain more by harnessing the credible voices and authentic experiences of customers they have served. In this process, they also gain invaluable feedback about what's working or not working for their customers. Using this input, they can retool their products or approach to better match what customers want and improve their business over time.



Screenshot from yelp.com

Additionally, savvy marketers recognise that when individuals take a public stance on a product or issue, they tend to become more committed to that position. Thus, customer relationship management can become a virtuous cycle. As customers have more exposure and positive interactions with a company and its products, they become more deeply engaged, and they are more likely to become vocal evangelists who share their opinions publicly. Customers become an active part of a marketing engine that generates new business and retains loyal customers, driving repeat business and increasing customer lifetime value.

Engagement Marketing: Making Customers Part of the Brand

A further step beyond customer evangelism is engagement marketing, the practice of reaching out to customers and encouraging them to become full participants in marketing activity and the growth of a brand. Sometimes called live marketing, this approach is becoming more common as media and technology provide more interactive, visible, and sharable ways for consumers to connect with brands and companies.

A mind shift is underway, away from one-way, company-to-consumer communication toward marketing activities that invite consumers to shape and become part of the value a brand provides. In an increasingly crowded market-

place, many organisations find that they can distinguish themselves and their products by creating tribes of fans who not only advocate for the brand but also actively make it part of their daily activities and lifestyle. Customers may even become involved in developing marketing programs, creating content for marketing purposes, and cultivating one-on-one relationships with a company or brand.

Creative marketers have devised numerous ways to foster engagement in marketing. The self-promotional mindset and proliferating tools of social media are a natural fit for making customers part of a brand. People tag their favourite restaurants and post photos to communicate with friends when they are having fun. Bloggers routinely name-check favourite products, review them, and carry on conversations about them in their posts.

The phenomenon of engagement marketing helps explain the meteoric rise in the popularity of GoPro cameras. When company leaders realised that their customers had an unquenchable appetite for sharing videos of amazing outdoor adventures (shot with GoPro cameras, of course), they built the company brand and marketing strategy around engaging customers in viral sharing. The following video, produced by YouTube, explains this engagement marketing success story.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=64#oembed-1

You can view the transcript for "GoPro YouTube Case Study | YouTube Advertisers". (opens in new window)

1.6 HOW ORGANIZATIONS USE MARKETING

Learning Objectives

- Explain the difference between a customer and a consumer
- Define different types of organizations including B2C, B2B, and nonprofit organizations
- Provide examples of how each type of organization uses marketing
- Describe how different types of organizations, such as nonprofits, consumer product (B2C) firms, and business-to-business (B2B) organizations, use marketing

Although marketing activities come in many different forms, the fundamental principles of marketing apply, regardless of what you're trying to sell, advocate, or promote. Grounding your marketing efforts in a customer-oriented mindset and staying focused on the relationships you build with those customers will always steer you in the right direction.

At the same time, different organizations use marketing in different ways to achieve their goals. The next reading will give you more insight into how marketing supports the success of several common types of organizations.

Learning Activities

- Reading: How Organizations Use Marketing

Although we often think of marketing in the context of for-profit businesses and product sales, a wide variety of organizations use marketing to achieve their goals.

For-Profit Marketing Versus Nonprofit Marketing

For-profit organizations are typically privately owned or publicly traded companies with a primary purpose of earning money for their owners. Nonprofit organizations also earn money, but their primary purpose is to use these funds for a specific charitable purpose. Types of nonprofit organizations that may engage in marketing include schools and colleges, hospitals, museums, charitable organizations, and churches, among others.

As the terms denote, the difference between for-profit and nonprofit marketing is in the organization's primary objective. For-profit marketers measure success in terms of profitability and their ability to pay dividends or pay back loans. Continued existence depends on the level of profits they can generate. The primary focus of marketing is usually to sell products, services, experiences or ideas to target customers and to make these customer relationships as profitable as possible.

Nonprofit institutions exist to benefit a stated mission or purpose, regardless of whether profits are achieved. Owing to their socially beneficial purpose, nonprofit organizations are subject to an entirely different set of laws—notably tax laws. While they are allowed to generate profits, they must use these funds in specific, philanthropic ways in order to maintain their nonprofit status. Marketing efforts focus on activities that promote the organization's mission. A school, college, or university might use marketing to attract students, improve academic reputation, and solicit donations from alumni. A museum or nonprofit theatre company uses marketing to attract visitors, ticket sales, event sponsors, and philanthropic donations. Marketing for nonprofit hospitals usually focuses on attracting patients and strengthening reputation as a high-quality health are provider.

Business-to-Consumer and Business-to-Business Marketing

An important distinction in how organizations use marketing is whether their efforts target business-to-consumer (B2C) transactions or business-to-business (B2B) transactions. In business and marketing, the **consumer** is the individual who actually uses the product. The **customer** is the individual who buys the product from a business. In some transactions, these are the same person, but in other transactions they are different entities.

Suppose you take a break from studying and walk to a corner store to buy a snack bar that's made by a local health-food company. From the perspective of the corner store owner, you are both the customer and the consumer in this transaction. However, from the perspective of the health-food company that made the bar, you are only the consumer, because although you consumed the product, you didn't buy it from them. The health-food company's customer is the corner store owner who decides whether or not to stock their snack bars in her store.

In marketing, this distinction is important because it helps marketers better understand where to focus their attention. Business-to-business (B2B) marketers sell to other businesses or institutions that consume the product as part of operating the business, or use the product in the assembly of the final product they sell to consumers. Business-to-consumer (B2C) marketers focus their efforts on consumers, the individuals who consume a finished product.

A B2B Emphasis

The tools of marketing are available to both B2B and B2C organizations, but some tactics tend to be more effective than others in each type of marketing. Business-to-business marketers use more personal selling, in which a sales force builds personal relationships with individuals in decision-making roles to facilitate sales within the organizations they target. Professional conferences and trade shows provide opportunities for meeting and networking with a B2B marketer's target customers. Company web sites are a primary way for B2B organizations to share information and promote their offerings. Since they usually target a narrow, specialized sliver of the population, B2B marketers have little need for mass advertising. Because B2B sales tend to be higher-priced, larger-ticket items, marketing tactics often include extensive adjustments in factors such as the selling price, product features, terms of delivery, and so forth.

A B2C Emphasis

For B2C marketers, such as consumer goods manufacturers, there is a dual focus. B2C marketers typically invest a lot in generating demand for their products among the general population. Mass marketing tactics designed to reach a large audience nearly always have a B2C focus: think Superbowl ads, Major League Baseball, and anything hailing the return of Mexican pizza at Taco Bell. At the same time, B2C marketers face a constant battle getting their products into retail outlets anywhere they don't sell directly to consumers.

A Dual Emphasis: B2B and B2C

Organizations may conduct both B2B and B2C marketing, targeting different types of customers. The Swedish home-furnishing company IKEA, for example, markets its ready-to-assemble, eco-friendly furniture and furnishings all over the world. IKEA's B2C marketing targets families, young professionals, and penny-pinching college students. Meanwhile, its B2B marketing focuses on small-business owners and start-up companies.

Whether to have a B2B or a B2C focus depends on whose perceptions you want shape, what behaviours you want to influence, and where the most promising opportunities are for making the impact your organization wants to achieve.

1.7 VALUE OF MARKETING

Learning Objectives

- Explain the benefits consumers derive from marketing activity
- Explain the benefits companies and organizations derive from marketing activity
- Explain the benefits society derives from marketing activity
- Describe how an understanding of marketing makes people more informed as both consumers and participants in society
- Explain how marketing creates value for the consumer, the company, and society

For some people, marketing has a reputation as being fluffy, superficial, and light. Certainly, a lot of marketing activities have earned that reputation over the years. One goal of this course is to help you understand the important role marketing plays in business and everyday life in today's globally connected world.

Are we arguing that marketing is an inherently good thing? No, we're arguing that it is an inherently useful and potentially powerful thing.

Is marketing a matter of life-and-death importance? Generally, no.

Does marketing save lives? Actually, sometimes it does. [1]

1. Bourne, K. (2021, March 25). *Alberta has spent more than $15M on Covid-19 awareness campaigns*. Global News. https://globalnews.ca/news/7720170/alberta-government-covid-19-advertising-cost/

HEALTH

Alberta has spent more than $15M on COVID-19 awareness campaigns

By Kirby Bourne · 630CHED
Posted March 25, 2021 7:54 pm · Updated March 25, 2021 8:32 pm

An Alberta government COVID-19 awareness campaign billboard on Gateway Blvd. near Whitemud Drive in south Edmonton on March 25, 2021. **Eric Beck, Global News**

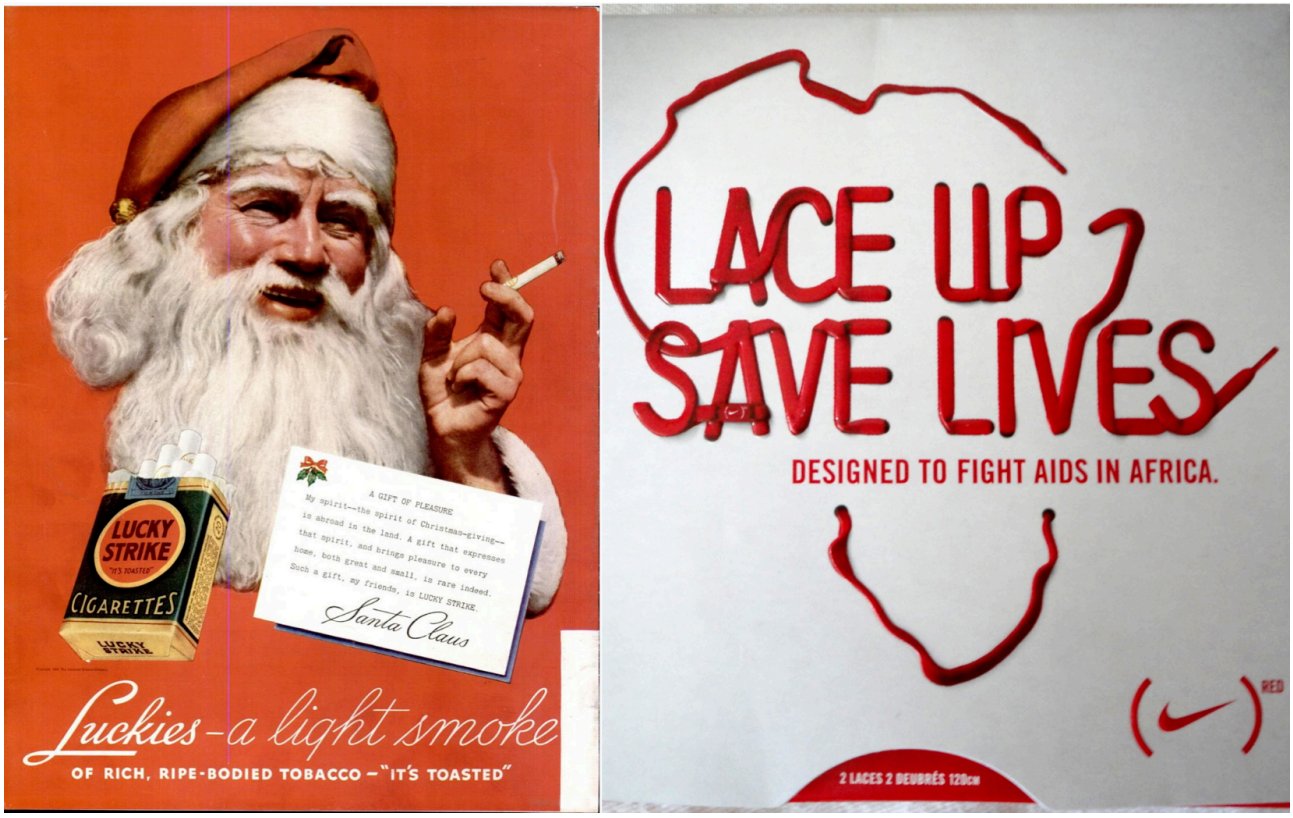
Screenshot of a *Global News* story posted March 25, 2021 to Globalnews.ca

Learning Activities

- Reading: The Value of Marketing

Marketing can mobilize attitudes and behavior around a common vision. It is a powerful medium for expression, creativity, and sharing across an increasingly global society. Marketing can be an agent of change in the diffusion of ideas and innovation. It can also be self-serving and manipulative, playing on human fears and insecurities to separate people from their money and from one another.

With all this in mind, what value does marketing provide?



Left: Lucky Strike ad, LIFE Magazine, 1936. Right: Ad promoting Product Red, a licensed brand that partners with companies like Nike, Apple Inc., Converse, and others to raise funds to eliminate HIV/AIDS in Africa. Fifty percent of the profits generated by Red products are donated to the Global Fund to Fight AIDS.

Marketing remains an active, dynamic field because it serves useful purposes for organizations, individuals, and society.

Marketing Can Benefit Organizations

As explained earlier in this module, organizations use marketing to identify, satisfy, and retain customers. Marketing helps businesses know which problems to solve and which products, services, and experiences to offer. Effective marketing drives product improvements and determines the terms of profitable transactions. Marketing efforts help organizations build and sustain productive relationships with the people and groups they serve. Without effective marketing, companies become islands that retain no meaningful connection to their customers. When an organization loses its audience, eventually it ceases to exist.

Marketing Can Benefit People

Individuals are not just *targets* of marketing; they can also be *beneficiaries*. Marketing helps people navigate the world around them to find the things that address their wants and needs. Marketing is responsible for the creation of products that delight people, improve their productivity, and alter their quality of life. In recent years, marketing has contributed to the pervasive information now available to help people make advantageous consumer choices. Marketing reduces the friction and hassle around transactions. Imagine, without marketing you would never know that many of the products you need exist, let alone how to find them.

Marketing and Society

Because marketing is grounded in commercial, profit-seeking behaviors, some would argue that society is a net loser rather than a net winner when it comes to marketing influence. However, effective marketing helps create the conditions for healthy competition and market efficiency, where companies and consumers communicate and exchange mutual value.

Like virtually any tool, marketing can be used for noble purposes or nefarious ones. Regardless, it has a pervasive presence in the modern world. As you learn about marketing and begin to practice its principles, you will see more clearly how it influences your daily life. You will identify opportunities where marketing skills can help you become more effective at achieving your personal and professional goals. With a foundation in marketing, you will become a more informed consumer of the products, services, experiences and ideas you encounter throughout your life.

CHAPTER 2: WHY MARKETING MATTERS?

Learning Objectives

- Explain why the marketing function matters
- Explain why the customer is the cornerstone of marketing
- Describe the concepts of segmentation and targeting
- Describe the marketing mix
- Explain how organizations use the marketing mix (often called the four Ps) to market to their target customers
- Understand the role of a marketing plan as a guiding document for marketing activities

2.1 WHY IT MATTERS: MARKETING FUNCTION

Learning Objective

Identify the primary marketing activities involved in a job search

It's springtime. You've just graduated from college, and the Instagram photos of you wearing your cap, gown, and huge smile are still fresh. But your mind has quickly turned to other things, or rather, to one major thing: a job.

You have a newly minted degree and a new skill set you're fired up to use (and possibly a few unpaid loans on your back). Now you just need to get an employer to notice you, pick you out of the crowd, and invite you onto the team. In other words, you need to *market* yourself.

What does that mean?

You Are the Product

What is the unique combination of skills and capabilities you provide to prospective employers? What can you offer that's different and better than other candidates? It might be a language you speak, a depth of prior experience you bring, a course of training you completed, a familiarity with the industry, great communication skills, or some combination of characteristics that make you an attractive employee.

Who Is Your Customer?

Who do you want to work for? What type of work do you want to do? Prospective employers are the customers you want to appeal to. Get to know them by researching who they are, who's hiring, what hiring process they use and what they look for, how they get information about job candidates, and what makes them take a closer look.

How Do You Reach These Customers?

How can you connect with employers? Reaching prospective employers usually involves packaging and promoting yourself through a common set of job-search tools and activities—like job fairs, résumés, cover letters, LinkedIn profiles, networking lunches, meet-ups, and other ways to get an "in." As you find pathways to an employer, how do you make a strong positive impression? Packaging and presentation are essential. You show you're a good fit by dressing for success, sharing sample work products, showcasing your expertise, and demonstrating interpersonal skills.

What's Your Price?

When it comes to salary and benefits, what is your negotiating strategy? When discussions get serious—when you get a job offer, say—you'll want to get as much compensation as you can without pricing yourself out of the opportunity. After all, you're probably not the only candidate they are considering.

Marketing: A Life Skill

Marketing happens virtually everywhere. Job candidates like yourself have to figure out how to market themselves to employers. Companies market their products and services to customers. Nonprofit organizations market their altruistic missions and impacts to donors. Government agencies market their policies and programs to the general public. Candidates market their ideas to voters. Parents market vegetables to their finicky youngsters.

As you gain a greater understanding of marketing and its primary activities, you will see it at work all around you. You will become more adept at knowing how marketing works, and why. You will learn about marketing tools and techniques you can apply to your advantage personally and professionally. You'll appreciate the value of good marketing principles in helping you get ahead.

Of course you want to develop a skill that's so important in modern life!

2.2 THE IMPORTANCE OF THE CUSTOMER

Learning Objective

Explain why the customer is the cornerstone of marketing

As we dive into the mechanics of marketing, we begin by locking our focus on the customer.

Customers are the people or organizations with needs or wants that a business aspires to address. The act of obtaining a desired object from someone by offering something of value in return is called the *exchange process*. Businesses live, thrive, or die based on their ability to offer value to customers through the exchange process. In other words, the customer is the primary reason for a business to exist.

All marketing centers on creating, delivering, and communicating value to the customer.

Learning Activities

- Reading: Why Customers Matter

Who Are Customers, and Why Do They Matter?

Marketing exists to help organizations understand, reach, and deliver value to their customers. For this reason, the customer is considered the cornerstone of marketing.

With this in mind, what is likely to happen when an organization doesn't understand or pay attention to what its customers want? What if an organization doesn't even really understand who its customers are?

One of the world's best-known brands, Coca-Cola, provides a high-profile example of misunderstanding customer "wants." In the following video, Roberto Goizueta—in his only on-camera interview on this topic—recounts the disastrous launch of New Coke in 1985 and describes the lessons the company learned. Goizueta was chairman, director, and chief executive officer of the Coca-Cola Company from August 1980 until his death in October 1997.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=86#oembed-1

You can view the transcript for "All About New Coke" (opens in new window)

Focus on Customers: The "Marketing Orientation"

The purpose of marketing is to gain a balance between creating more value for customers against making profits for the organization. To achieve this, many firms have adopted a marketing philosophy or what is generally termed a "marketing orientation."

A marketing orientation can be defined as focusing the organization on identifying and understanding the customers' preferences in terms of needs and wants and delivering them more effectively and efficiently than their competitors.

Prior to the adoption of a marketing orientation, many organizations followed what was referred to as the "production philosophy." This approach focused on improving the efficiency of production and distribution in order to reduce costs and deliver more affordable products—both were considered the source of competitive advantage.

Another philosophy that has been followed historically is the "selling concept." This approach required organizations to aggressively focus on selling and promotion efforts as a way to stimulate demand and drive sales.

A marketing-driven approach, or marketing orientation, has consistently delivered superior results over these other philosophies. Adopting a marketing orientation is now widely accepted as delivering greater levels of customer satisfaction, profitability, and sustainability.

As an example, Toyota, with its strategy of manufacturing cars for different segments of populations around the world, maintains a balance between customer value and profitability. With the marketing philosophy in mind, it has

replaced its original goal of 10% of the world's market share with being "Number one in customer satisfaction," as it believes its market share will follow the satisfaction it delivers to its customers.[1]

The Problem of Misplaced Focus

Both historically and currently, many businesses do not follow the marketing orientation. In the past, manufacturing companies such as Texas Instruments and Otis Elevator followed a production orientation, maintaining a primary focus on technology, innovation, and low production and distribution costs. Such companies assume that a technically superior or less expensive product sells itself. While this may be true in some cases, over time this approach leaves businesses particularly vulnerable to competitors who outpace them technologically or undercut their pricing. Without a sufficient focus on the customer's needs and preferences, businesses can lose sight of what matters most in the exchange process.

Other companies, such as Amway, a multi-level marketing company that sells health, beauty, and home care products, treat sales and marketing as essentially the same thing. This sales orientation assumes that a good salesperson has the capability to generate demand and sell anything regardless of the customer's needs and the value provided in the exchange process. Often, this focus on selling and the promotion process effectively ignores the customer or views the customer as someone to be manipulated. Organizations with this orientation become vulnerable to competitors that do a better job of understanding and catering to what customers actually want.

Staying Close to the Customer

Insightful businesses acknowledge the importance of production and sales but realize that the following three-step process is most effective:

1. Collect information about customers' needs and competitors' capabilities
2. Share the information across departments, including production and sales
3. Use the information to create a competitive advantage by increasing value for customers

Thanks to the internet and other technological advances, today's consumers have access to far more and far better information than ever before. They also have many more choices. To succeed in this environment, businesses must provide comparable levels of information to competitors, and they must deal with new competitors that are quicker, smarter, and open 24/7/365.

Organizations that employ marketing correctly know that keeping customers informed is easier if they maintain constant contact with the customer. This does not necessarily mean that they write or call regularly, although it could. Rather, it means a marketing organization knows a great deal about the characteristics, values, interests, and behaviours of its customers. It monitors how these factors change over time. It provides channels of information and communication to meet customers where they are and be accessible at any moment. Although the customer-oriented marketing process is not an exact science, there is sufficient evidence that marketers who do this well tend to succeed.

A prime guideline for marketing success is to establish customer satisfaction as a company's number-one priority.

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1. Kotler, P., Brown, L., Adam, S., Burton, S., Armstrong, G. (2008). *Marketing.* Pearson, Australia.

This forces an organization to measure and pay attention to customers' experiences purchasing and using its products. The drive to improve customer satisfaction typically results in improvements to products, processes, and relationship building. This approach helps organizations develop a marketing mentality that facilitates information gathering and maintains effective communication with the customers who are critical to growth, profitability, and success.

2.3 SEGMENTATION AND TARGETING INTRODUCTION

Learning Objectives

Explain the concepts of segmentation and targeting

We have established that the customer is at the center of marketing and arguably of business, as well. How do businesses find and communicate with customers?

Let's think about a couple of realities in the business world. First, every organization has limited resources. Organizations simply cannot do everything and be all things to all people. They have to prioritize and choose. Second, marketing is always most effective when it's relevant to the potential customer. How can an organization create the right products, services, messages and experiences for a potential customer? Answer: through segmentation and targeting.

The starting point for understanding your potential customer is figuring out exactly whom you want to reach. That process is called *segmentation*. The next step is focusing on those customer segments that are most promising customers. That's where *targeting* comes in. Targeting helps organizations use their resources wisely and customize what they do much more specifically for those who will see the greatest value from their offering.

Learning Activities

- Reading: Defining Your Target Market

Whom Are You Trying to Reach?

Suppose you are selling automotive detailing products. Is your target "anyone with money to pay for your product?" Or are you focusing your efforts on a tightly defined market niche of people with an identified need for what you are selling? "Anyone with money" is such a broad audience that it's difficult to make any impact at all with your marketing efforts or convince very many people that they need your product. If you narrow and carefully define your target market, though, your efforts will be more fruitful because they're focused on people with a preexisting need or interest in what you offer.

Step 1: Identify the Business Need You Address

To define your total market, start by stating the needs you will fulfill: who are your products or services intended for? Who do you want to do business with? What is unique about your product? If you're selling products used in automotive detailing, your total market consists of vehicle owners—that is, all the people who could potentially buy your product. Your business will help them keep their vehicles clean and shiny.

Step 2: Segment Your Total Market

Next, break down this large market into smaller sections, using a process known as segmentation. You can use a variety of approaches to segment your total market into groups with common wants or needs. In this case, we can segment by vehicle ownership and related behavior. Specific segments might include the following:

- People who restore classic automobiles
- People who drive old clunkers and run them through the car wash occasionally
- People who own "status" cars
- Truck drivers
- Motorcycle owners

Which of these subgroups are likely to be your most productive market niche(s)? You recognize that auto owners who don't care about keeping their cars clean and shiny probably won't be very interested in your products. Then there are those who care, but they lack the time and interest to do the work themselves; they take their vehicle to a shop. Others only worry about auto detailing only when it's time for a trade-in.

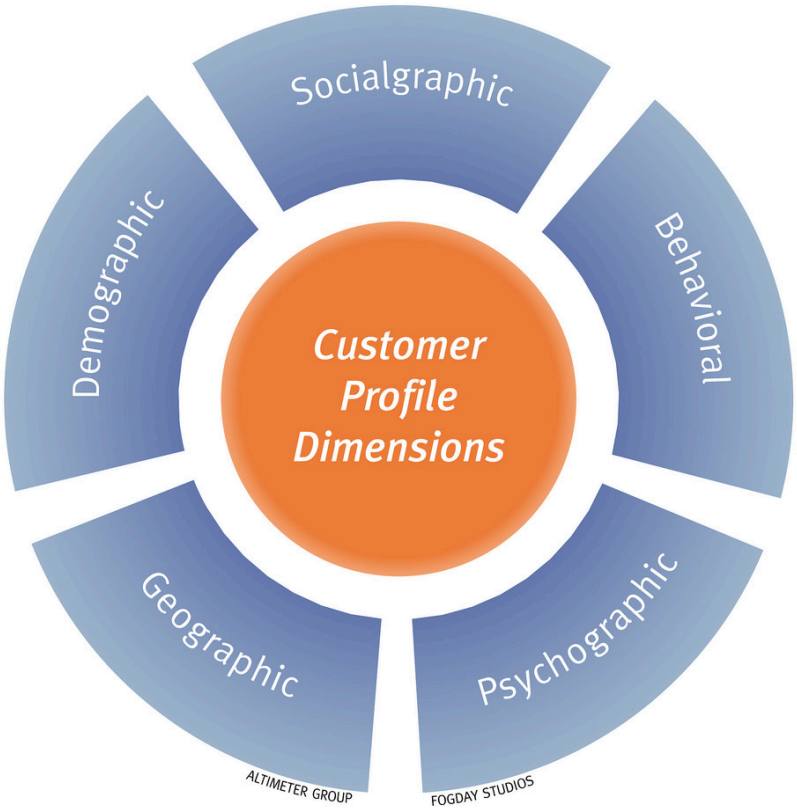
You reject these segments as unsuitable for your niche market because they probably don't care enough about what you offer. After further consideration and research, you decide that your market segment will be automobile owners who have both the time and the interest to do their own detailing work—people who enjoy puttering with their vehicles and who take pride in their vehicle's appearance.

You need to conduct research to confirm that there are enough potential customers in that group to support your business. You should also do a competitive analysis to confirm that what you are offering is not readily available to your potential customers elsewhere. With this validation, you move to step three.

Step 3: Profile Your Target Customer Segment(s)

Next, develop profiles of your target customer(s) to get a true picture of the people you're trying to serve. Describe these potential customers as fully as you can: Who will actually buy your product? What do you know about them? Where are they situated geographically? How much do they spend on car detailing? What are they likely to spend on your products? Where do they shop? What is their annual income? What languages do they speak? What kinds of automobiles do they drive? If you are selling online, what methods do they prefer for online payment? What type of websites do they visit? How do they want their product delivered?

Identify your customer profile before you conduct market planning so that your planning is a good fit for your customers' behavior, interests, and needs.



Lumen Publishing (2016) Principles of Marketing.
https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/

Step 4: Research and Validate Your Market Opportunity

Now that you have fully identified your target market, conduct research to verify that there will be enough business in this group to support your company in its growth. This process confirms that the need actually exists and that it's not just wishful thinking on your part.

Use both primary and secondary sources in your research. You might consult business directories, obtain statistics regarding automobile owners and their car-care practices, or locate newspaper articles and magazine stories written on the subject. You can also conduct your own market research using techniques such as surveys, focus groups, interviews, and so forth.

Your research should also determine the size of the market opportunity in terms of revenue as well as your potential market share.

You can use primary and secondary sources to find out how many potential customers there are in the geographic area you have defined and how many businesses are directly or indirectly competing with you. Your market share will be the number of customers likely to buy from you rather than from your competition.

Having defined and validated your target market, you are now better positioned to develop a marketing plan that will reach your potential customers. Perhaps your sales will take off right away—a great problem to have!

2.4 COMMUNICATING THE VALUE PROPOSITION

Learning Objectives

Define and communicate an organization's value proposition in a competitive marketplace

Once you know your target market, you must have a compelling way to communicate your value proposition. This requires the marketer to answer a number of questions:

- **What is value?** Each customer will weigh the benefits and the costs of an offering differently and determine whether it is providing value. It is important to understand how customers perceive value.
- **What is the value this offering provides to the target customer?** You hope that you have selected target customers that view the value that you provide favorably, but the marketer has to test and refine the assumption that the offering is actually providing value to the target customer.
- **How is the value provided different from the value that competitors provide?** Each time a competitor shifts its offering(s), that change will have an impact on the perceived value of your offering. In a competitive marketplace, it becomes important to understand and react to changes, but also to identify the value that you provide that is most difficult for others to copy.
- **How are you communicating the promise of value to target customers?** With so many marketing channels and messages all around, customers have a very short attention span. The marketer has to grab that attention and communicate value to customers in only a few seconds.

Learning Activities

- Reading: Value for the Customer
- Reading: Communicating the Value Proposition

What Is Value?

Earlier in this module, we discussed that marketing exists to help organizations understand, reach, and deliver value to their customers. In its simplest form, value is the measure of the benefit gained from a product or service relative to the full cost of the item.

Value = benefit – cost

In the process of the marketing exchange, value must be created. Let's look at the simplest example: if you and I decide to give each other a $5 bill at the same moment, is value created? I hand my $5 bill to you, and you hand yours to me. It is hard to say that either of us receives a benefit greater than the $5 bill we just received. There is no value in the exchange.

Now, imagine that you are passing by a machine that dispenses bus tickets. The machine is malfunctioning and will only accept $1 bills. The bus is about to arrive and a man in front of the machine asks if you would be willing to give him four $1 bills in exchange for a $5 bill. You could, of course, decide to make change for him (and give him five $1 bills), but let's say you agree to his proposal. At that moment a $1 bill is worth $1.25 to him; how does that make sense in the value equation? From his perspective, the ability to use the bus ticket dispenser *at that moment* adds value to the transaction.

This is where value becomes tricky for marketers. Value is not simply a question of the financial costs and financial benefits. It includes perceptions of benefit(s) that are different for every person. The marketer has to understand what is of greatest value to the target customer, and then use that information to develop a total offering that *creates value*.

Value Is More Than Price

You will notice that we did not express value as value = benefit – price. Price plays an important role in defining value, but it's not the only consideration. Let's look at a few typical examples:

- **Example One:** Two products have exactly the same ingredients, but a customer selects the higher-priced product because of the name brand. For the marketer, this means that the brand is ***adding value*** to the transaction.

- **Example Two:** A customer shopping online selects a product but abandons the order before paying because there are too many steps in the purchase process. The inconvenience of filling in many forms, or concerns about providing personal information, can *add cost* (which will subtract from the value the customer perceives).

- **Example Three:** An individual who is interested in a political cause commits to attending a meeting, but can-

cels when he realizes that he doesn't know anyone attending and that the meeting is on the other side of town**.** For this person, the benefit of attending and participating *is lower because of costs* related to personal connection and convenience.

As you can begin to imagine, the process of determining the value of an offering and then aligning it with the wants and needs of a target customer is challenging, indeed. Throughout this course, though, you will gain a deeper understanding of the tools and processes that marketers use to do it effectively.

Value in a Competitive Marketplace

As if understanding individual perceptions of value wasn't difficult enough, the presence of competitors further complicates perceptions of value. Customers instinctively make choices between competitive offerings based on perceived value.

Imagine that you are travelling to Toronto, Ontario, with a group of six friends for a school event. You have the option to stay at a Marriott Courtyard Hotel that is located next to the event venue for $95 per night. If you pay the "additional person fee," you could share the room with one friend for a cost of $50 per night. However, one of your friends finds an AirBnB listing for an entire apartment that sleeps six people at the cost of $280 per night. That takes the price down to $40 per night, but the apartment is five miles away from the venue and since there are seven of you, you would likely be sleeping on a couch or fighting for a bed. It would have a more personal feel and a kitchen, but you would be staying in someone else's place. It's an interesting dilemma. Regardless of which option you would really choose, consider the differences in the value of each and how the presence of both options generates unavoidable comparisons: the introduction of the Airbnb alternative has the effect of highlighting new shortcomings and benefits of the Marriott Courtyard hotel room.

Alternatives generally fall into two categories: competitors and substitutes. A competitor is providing the same offering but is accentuating different features and benefits. If, say, you are evaluating a Marriott Courtyard hotel room vs. a Hilton Hampton Inn hotel room, then you are looking at *competitive offerings*. Both offerings are hotel rooms provided by different companies. The service includes different features, and the price and location vary, the sum of which creates different perceptions of value for customers.

Airbnb is a service that allows individuals to rent out their homes, apartments, or a single room. Airbnb does not offer hotel rooms; it offers an alternative to, or substitute for, a hotel room. *Substitute offerings* are viewed by the user as alternatives. The substitution is not a perfect replication of the offering, which means that it will provide different value to customers.

Competitors and substitutes force the marketer to identify the aspects of the offering that provide unique value vis-à-vis the alternatives. Marketers refer to this as differentiation. Differentiation is simply the process of identifying and optimizing the elements of an offering that provide unique value to customers. Sometimes organizations refer to this process as competitive differentiation since it is very focused on optimizing value in the context of the competitive landscape.

Finally, organizations seek to create an advantage in the marketplace whereby an organization's offerings provide greater value because of a unique strategy, asset, or approach that the firm uses that others cannot easily copy. This is a competitive advantage. The American Marketing Association states that "a competitive advantage exists when there is a match between the distinctive competencies of a firm and the factors critical for success within the industry that permits the firm to outperform its competitors." When a company can create greater value for customers than its competitors, it has a competitive advantage.

What Is a Value Proposition?

We have discussed the complexity of understanding customer perceptions of value. As the company seeks to understand and optimize the value of its offering, it also must communicate the core elements of value to potential customers. Marketers do this through a value proposition, defined as follows:

> A business or marketing statement that summarizes why a consumer should buy a product or use a service. This statement should convince a potential consumer that one particular product or service will add more value or better solve a problem than other similar offerings.[1]

It is difficult to create an effective value proposition because it requires the marketer to distill many different elements of value and differentiation into one simple statement that can be easily read and understood. Despite the challenge, it is very important to create an effective value proposition. The value proposition focuses marketing efforts on the unique benefit to customers. This helps focus the offering on the customer and, more specifically, on the unique value to the customer.

A value proposition needs to very simply answer the question: Why should someone buy what you are offering? If you look closely at this question it contains three components:

- **Who?** The value proposition does not name the target buyer, but it must show clear value to the target buyer.
- **What?** The offering needs to be defined in the context of that buyer.
- **Why?** It must show that the offering is uniquely valuable to the buyer.

How Do You Create an Effective Value Proposition?

When creating or evaluating a value proposition, it is helpful to step away from the long lists of features and benefits and deep competitive analysis. Stick to the simple, and strive for focus and clarity.

A value proposition should be clear, compelling, and differentiating:

- **Clear:** short and direct; immediately identifies both the offering and the value or benefit
- **Compelling:** conveys the benefit in a way that motivates the buyer to act
- **Differentiating:** sets the offering apart or differentiates it from other offerings

The value proposition is a message, and the audience is the target customer. You want your value proposition to communicate, very succinctly, the promise of unique value in your offering.

1. Twin, A. (2020, July 5). *Value Proposition.* Investopedia. http://www.investopedia.com/terms/v/valueproposition.asp

Learn More

Visit the link below to read a nice description of the value proposition from a marketing consultant's perspective:"How to Write a Great Value Proposition" on Hubspot.

2.5 EVALUATING VALUE PROPOSITION EXAMPLES

Learning Objectives

Evaluate examples of value propositions

If you were asked to evaluate the solution to an easy math problem, such as 24 + 17 = 45, you could definitely say whether it's right or wrong. If, on the other hand, you were asked to evaluate a painting by a modern artist and judge it "good" or "bad," you would have to make a judgment based on your own preferences and, perhaps, after reading some reviews by experts or others (who probably wouldn't agree). Evaluating art is akin to evaluating a value proposition—it's definitely a subjective process, and others may disagree with you. That said, below are a few pointers that can help you.

It is easy to recognize when a value proposition is bad:

- If it is so general or universal that it doesn't articulate unique value.. (For years Tony the Tiger promoted Kellog's frosted flakes saying, "They're grrrrreat!" It's a cute catchphrase for a tiger, but it's not a value proposition.)
- If a value proposition has so many words that you need to read it twice—or worse, you stop reading and move on.
- If the value proposition does not provide clarity about the offering to the target market. The target customer should understand exactly what is promised.
- If the value proposition for an offering mimics the value proposition of a competitive offering. In the technology industry, many critics have poked fun at Microsoft for imitating Apple's simple marketing language and presentation style. No matter how compelling the value proposition for an offering is, copying it for a competitive offering doesn't make sense or work. An offering can't be unique if it's exactly like something else.

In this section, you'll get to review some value propositions that are quite good (in our view). As you read them think about what they are doing right and how they could be improved.

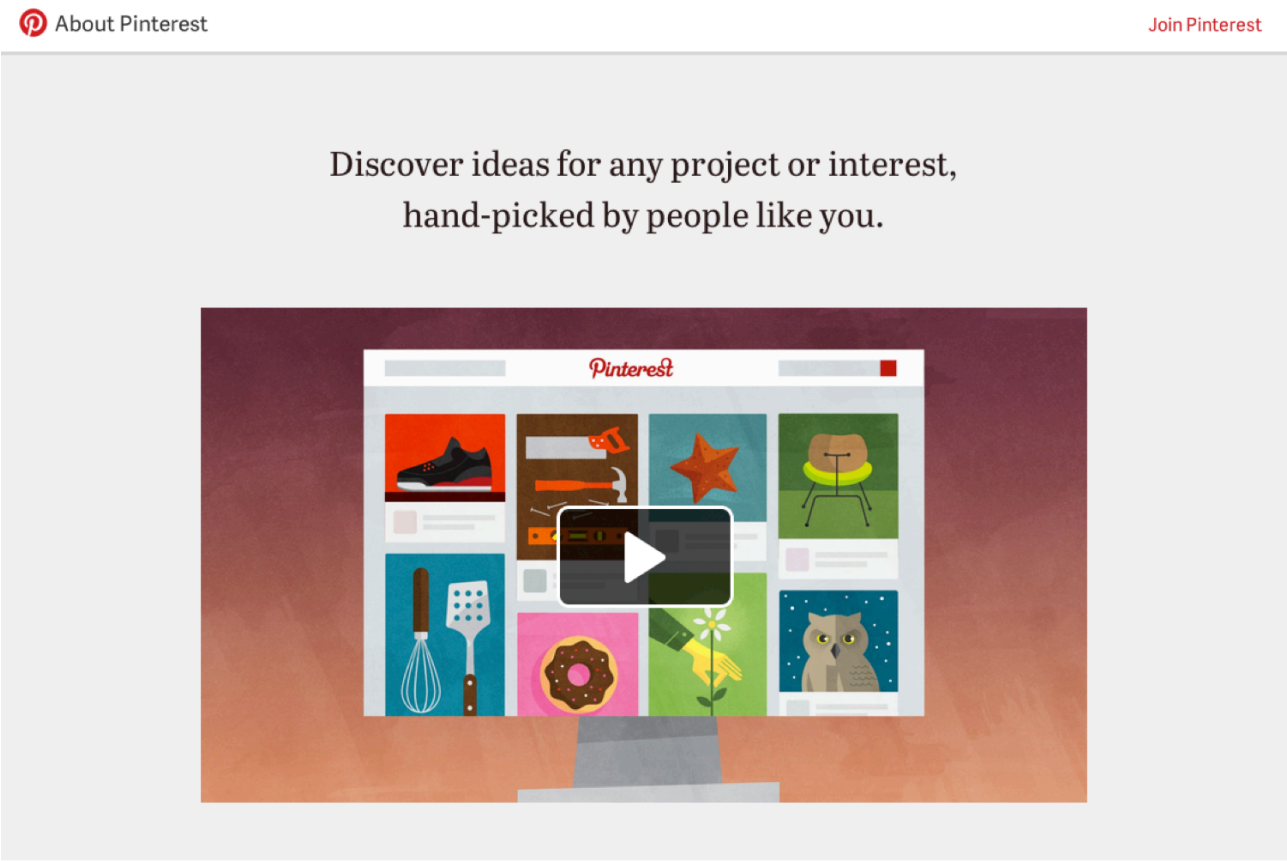
Learning Activities

- Reading: Value Proposition Examples
- Video: Coffee Shop Marketing

The Value Proposition in Action

Let's take a look at some real examples and evaluate them. Are they clear, compelling, and differentiating? Keep in mind that you may not be the target market for all of these examples. Your role as a marketer is to evaluate them from the perspective of the target customer.

Pinterest



Pinterest website screenshot. https://www.pinterest.com/

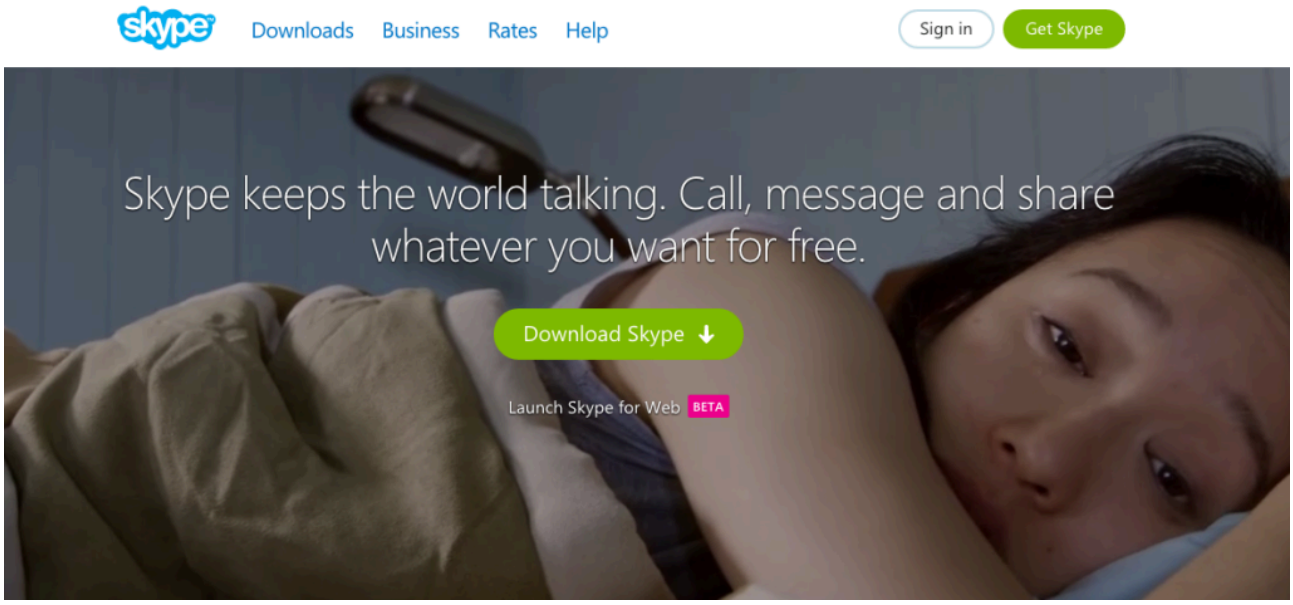
This value proposition doesn't offer a lengthy description of what Pinterest is and how it works. It simply states the benefits Pinterest provides to its users.

Notice the use of the phrase "people like you." The value proposition connects you to the site's other users through your own interests. It implies that a friendly community of "people like you" awaits you and is interested in helping you.

Is the value proposition sufficiently clear to you? Does it give you enough information to know whether the offering is of interest to you?

The greatest challenge in creating an effective value proposition is striking a balance between being clear and communicating enough value.

Skype



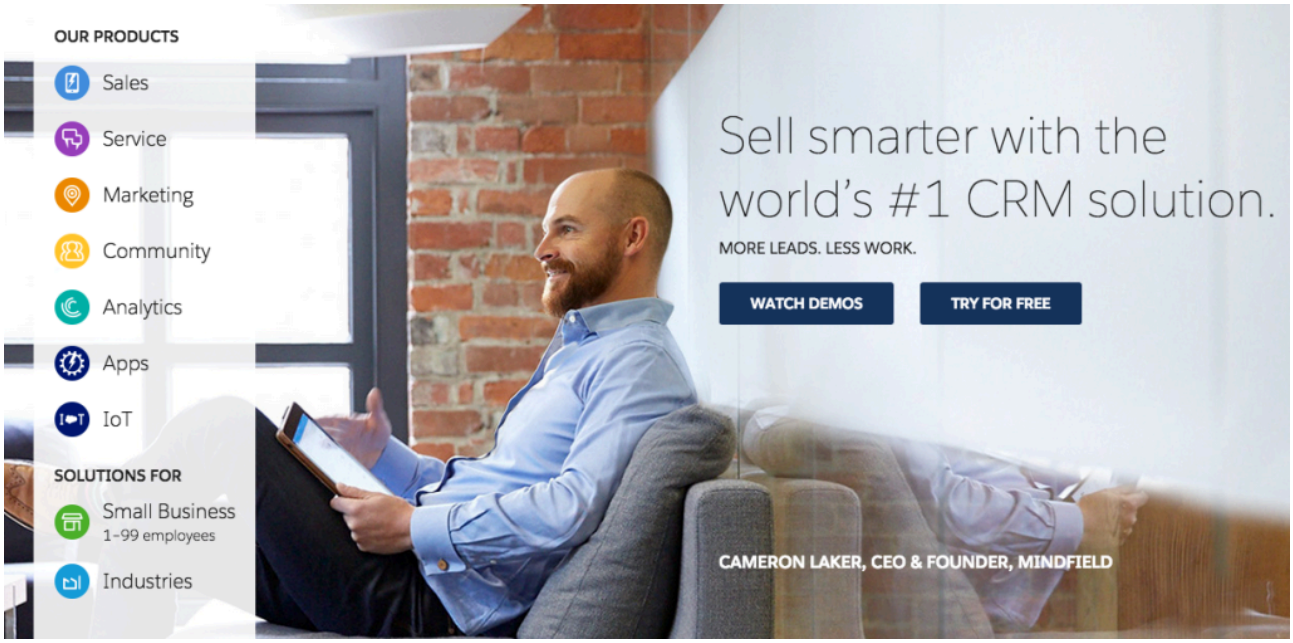
Skype website screenshot

The value proposition first highlights Skype's broad use, which is an important feature for its network-based approach.

Next, it describes the offering. Skype provides more information than Pinterest does about what its offering is—and it highlights the fact that it's free. Pinterest is also free but doesn't disclose this in its value proposition. Is one approach better than the other? Why might a company want to emphasize that its product is free while another does not? In this case, it's probable that Pinterest conducted research and learned that users expect Pinterest to be free since that's the case with many other social sharing sites. In contrast, since Skype is competing with traditional paid services like cell service providers, free access is an important differentiator.

Again, notice the use of the word "you" in the value proposition.

Salesforce.com

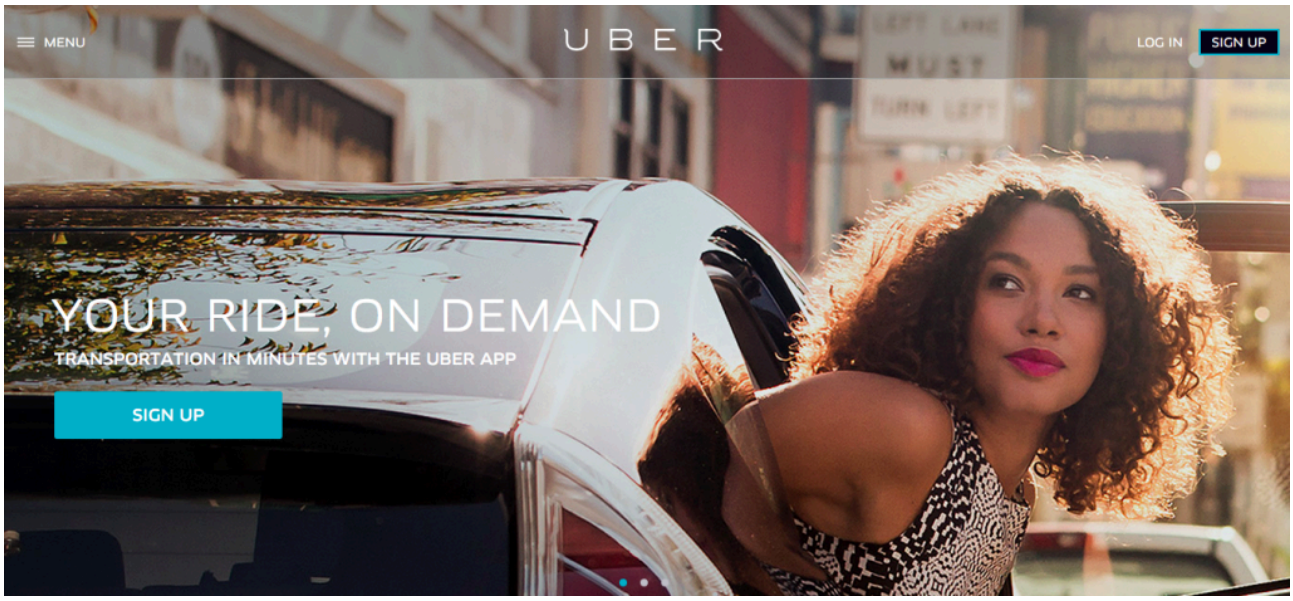


Salesforce.com website screenshot

The value proposition for Salesforce.com includes the acronym CRM, which stands for customer relationship management software. Not everyone knows this acronym, but Salesforce.com is confident that its target customers do, and it's betting that they are seeking such a system to improve sales management processes and results.

The value proposition cuts to the offering's core benefit—improved sales results—and highlights its strong ("world's #1") market position.

Uber



Uber website screenshot

This value proposition is very simple, but it says enough about the value that you may want to learn more about how it works.

In just a few words, the value proposition explains that you can get a ride when you need it using your phone. It emphasizes convenience in a number of ways by using the phrases "on demand" and "in minutes." There is also a subtle use of the word "your." Uber provides **your** ride. *You* are in charge.

Starbucks is a powerful global brand that brings with it a sense of being cool and trendy. A stodgy coffee shop brand in the United Kingdom had to find a different value proposition to convince coffee drinkers that they were worth another try. Watch the video below, to see what they tried:

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=103#oembed-1

You can view the transcript for "Coffee Shop Marketing". (opens in new window)

2.6 MARKETING MIX

Learning Objectives

Describe the marketing mix

The value proposition explains why a consumer should buy a product or use a service and how the product or service will add more value, or better solve a problem, than other similar offerings. Once you get the value proposition right, you still have to actually *deliver value* to your target customer. The marketing mix describes the tools that marketers use to create value for customers.

Learning Activities

- Reading: Defining the Marketing Mix
- Reading: Components of the Marketing Mix
- Reading: Introduction to Products and Services
- Reading: Introduction to Product Life Cycle

Reaching Customers through the Marketing Mix

The value proposition is a simple, powerful statement of value, but it is only the tip of the iceberg. How do marketing professionals ensure that they are reaching and delivering value to the target customer?

Take yourself, as a "target customer." Think about your cell phone. What would make you want to buy a new one? How might the following issues affect your purchasing decision? Factors that might influence your decision include the following:

- Features: A company has just released a new phone with amazing features that appeal to you.
- Price: You're concerned about the price—is this phone a good deal? Too expensive? So cheap that you suspect there's a "catch"?
- Information: How did you find out about this phone? Did you see an ad? Hear about it from a friend? See pictures and comments about it online?
- Customer service: Is your cell service provider making it easier for you to buy this phone with a new plan or an upgrade?
- Convenience: Could you easily buy it online in a moment of indulgence?

You can see there are multiple factors that might influence your thinking and decision about what to buy—a *mix* of factors. Taken together, these factors are all part of the "marketing mix."

Organizations must find the right combination of factors that allow them to gain an advantage over their competitors. This combination—the marketing mix—is the combination of factors that a company controls to provide value to its target customers.

The following video illustrates how the marketing mix changes depending on the target customer:

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=107#oembed-1

You can view the transcript for "Value Creation Through the Marketing Mix". (opens in new window)

Evolving Definitions of the Marketing Mix

There are a few different ways the marketing mix is presented. During the 1950s the components of the marketing mix were conceived as the "four Ps" and were defined as follows:

1. **Product:** the goods and services offered
2. **Promotion:** communication and information
3. **Place:** distribution or delivery

4. **Price:** ensuring fair value in the transaction[1]

Lumen Publishing (2016) Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/outcome-marketing-mix/

Today, this categorization continues to be useful in understanding the basic activities associated with marketing. The marketing mix represents the way an organization's broad marketing strategies are translated into marketing programs for action.

Over time, new categories of the marketing mix have been proposed. Most are more consumer-oriented and attempt to better fit the movement toward a marketing orientation and a greater emphasis on customer value. One example is the four Cs, proposed by Robert F. Lauterborn in 1990:

1. **Customer solution:** what the customer wants and needs
2. **Communication:** a two-way dialogue with the customer
3. **Convenience:** an easy process to act or buy
4. **Cost:** the customer's cost to satisfy that want or need[2]

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1. McCarthy, Jerome E. (1964). *Basic Marketing. A Managerial Approach*. Homewood, IL: Irwin.

2. Lauterborn, B. (1990). New Marketing Litany: *Four Ps Passé: C-Words Take Over*. Advertising Age, 61(41), 26.

The four Cs include a greater focus on the customer but align nicely with the older four Ps. They also enable one to think about the marketing mix for services, not just products. While it is difficult to think about hotel accommodations as a distinct *product*, it is much easier to think about a hotel creating a *customer solution*.

You can see how the four Ps compare with the four Cs in the chart below.

The Four Ps Alignment with the Four Cs

The Four Ps Alignment with the Four Cs

Four Ps	Four Cs	Definition
Product	Consumer solution	A company will only sell what the consumer *specifically* wants to buy. So, marketers should study consumer wants and needs in order to attract them one by one with something they want to purchase.
Price	Cost	Price is only a part of the total *cost to satisfy* a want or a need. For example, the total cost might be the *cost of time* in acquiring a good or a service, along with the *cost of conscience* in consuming it. It reflects the total cost of ownership. Many factors affect the cost, including but not limited to the customer's cost to change or implement the new product or service and the customer's cost for not selecting a competitor's product or service.
Promotion	Communication	Communications can include advertising, public relations, personal selling, viral advertising, and any other form of communication between the organization and the consumer.
Place	Convenience	In the era of the Internet, catalogs, credit cards, and smartphones, people often don't have to go to a particular place to satisfy a want or a need, nor are they limited to a few places to satisfy them. Marketers should know how the target market prefers to buy, how to be there, and be ubiquitous in order to provide the *convenience of buying*. With the rise of the Internet and hybrid models of purchasing, "place" is becoming less relevant. Convenience takes into account the ease of buying the product, finding the product, finding information about the product, and several other factors.

Whether we reference the four Ps or the four Cs, it is important to recognize that marketing requires attention to a range of different approaches and variables that influence customer behavior. Getting the right mix of activities is essential for marketing success.

Competitors and the Marketing Mix

The challenge of getting the right marketing mix is magnified by the existence of competitors, who exert market pressures using strategies defined by their marketing mix alternatives. Remember, the purpose of the marketing mix is to find the right combination of product, price, promotion, and distribution (place) so that a company can gain and maintain an advantage over competitors.

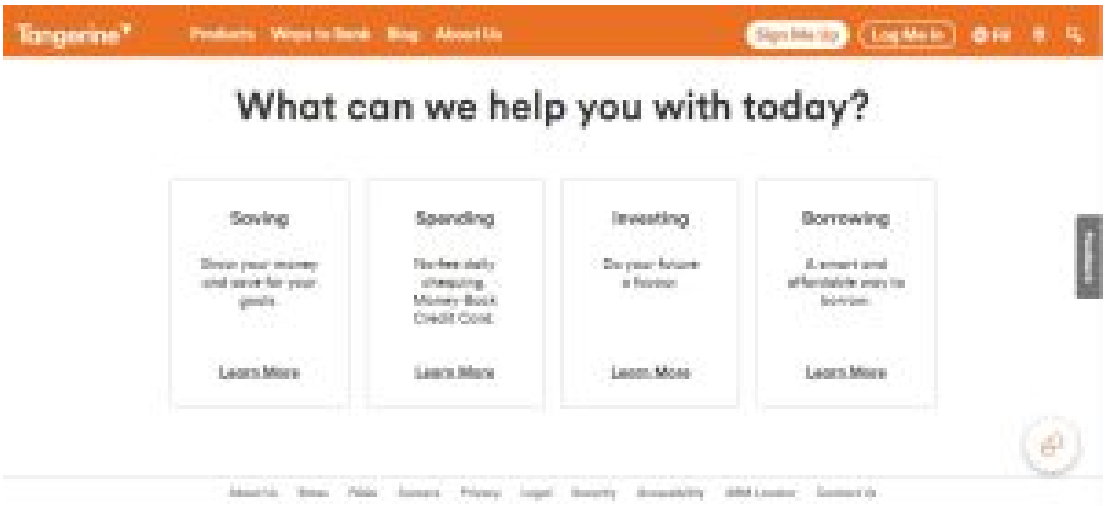
Product

In the marketing mix, the term "product" means the solution that the customer wants and needs. In this context, we focus on the solution. Products include either physical things (goods) and/or intangible things (services). Some products include both goods and services. In combination, or individually, goods and services are a solution and referred to as the product in the marketing mix. Examples of the product include:

Lumen Publishing (2016). Principles of Marketing. URL: https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-components-of-the-marketing-mix/

- The Tesla Model S, a premium electric car
- A stay at a Holiday Inn Express, a low-price national hotel chain
- Nacho Cheese Doritos, a snack food
- Tangerine, an online banking service

Each of these products has a unique set of features, design, name, and brand that are focused on a target customer. The characteristics of the products are different from competitors' products.



Screenshot of Tangerine.com

Promotion

In the marketing mix, the term "promotion" refers to the communications that occur between the company and the customer. Promotion includes both the messages sent by the company and messages that customers send to the public about their experience. Examples of promotion include:

- An advertisement in *Cooking Light* magazine
- A customer's review of the product on Twitter
- A newspaper article in the local paper quoting a company employee as an expert
- A text message sent to a list of customers or prospects

Lumen Publishing (2016). Principles of Marketing. URL: https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-components-of-the-marketing-mix/

Marketing professionals have an increasingly difficult job influencing promotions that cannot be controlled by the company. The company's formal messages and advertising are only one part of promotions.

Marketers often run social media campaigns, rewarding customers who "Like" the company on Facebook.

Place

In the marketing mix, the term "place" refers to the distribution of the product. Where does the customer buy the product? "Place" might be a traditional brick-and-mortar store, or it could be online. Examples include:

- Distribution through an online retailer such as Amazon.com
- Use of a direct sales force that sells directly to buyers
- Sales through the company's website, such as the shoe purchases at Nike.com
- Sales by a distributor or partner, such as the purchase of a Samsung phone from Best Buy or from a Verizon store

Lumen Publishing (2016). Principles of Marketing. URL: https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-components-of-the-marketing-mix/

In today's world, the concept of "place" in the marketing mix rarely refers to a specific physical address. It takes into account the broad range of distribution channels that make it easy for the target customer to buy.

Starbucks Online Ordering

How did a company like Starbucks that sells hot drinks from a storefront use mobile technology to improve distribution? Watch the video, below, to find out:

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=111#oembed-1

You can view the transcript for "Starbucks Launches Mobile Ordering So You Can Skip The Line". (opens in new window)

Price

In the marketing mix, the term "price" refers to the cost to the customer. This requires the company to analyze the product's value for the target customer. Examples of price include:

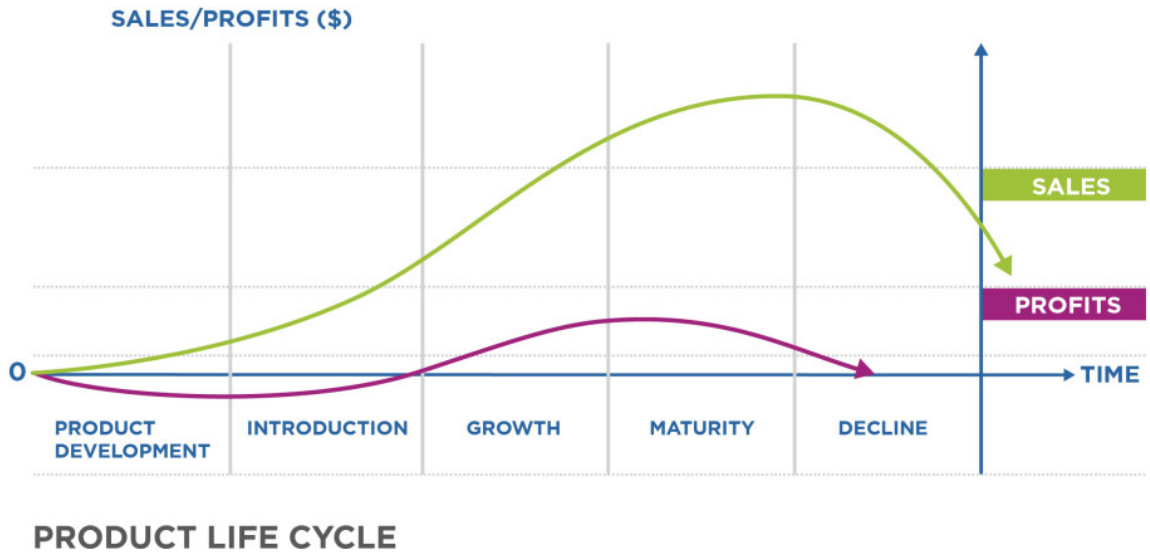
- The price of a used college textbook in the campus bookstore
- Promotional pricing such as free McNuggets offer for downloading the McDonald's app
- Discounts to trade customers, such as furniture discounts for interior designers

Lumen Publishing (2016). Principles of Marketing. URL: https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-components-of-the-marketing-mix/

Marketing professionals must analyze what buyers are willing to pay, what competitors are charging, and what the price means to the target customer when calculating the product's value. Determining price is almost always a complicated analysis that brings together many variables.

Free Chicken McNuggets with McDonald's App Download

A company has to be good at both developing new products and managing them in the face of changing tastes, technologies, and competition. Products generally go through a life cycle with predictable sales and profits. Marketers use the product life cycle to follow this progression and identify strategies to influence it. The product life cycle (PLC) starts with the product's development and introduction, then moves toward withdrawal or eventual demise. This progression is shown in the graph, below.



PRODUCT LIFE CYCLE

Lumen Publishing (2016). Principles of Marketing. URL: https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-stages-of-the-product-lifecycle/

The five stages of the PLC are:

1. Product development
2. Market introduction
3. Growth
4. Maturity
5. Decline

The table below shows the common characteristics of each stage.

Product Life Cycle Stages and Common Characteristics

Stage 1: Product Development	1. Investment is made 2. Sales have not begun 3. New product ideas are generated, operationalized, and tested
Stage 2: Market Introduction	1. Costs are very high 2. Slow sales volumes to start 3. Little or no competition 4. Demand has to be created 5. Customers have to be prompted to try the product 6. Makes little money at this stage
Stage 3: Growth	1. Costs reduced due to economies of scale 2. Sales volume increases significantly 3. Profitability begins to rise 4. Public awareness increases 5. Competition begins to increase with a few new players in establishing market 6. Increased competition leads to price decreases
Stage 4: Maturity	1. Costs are lowered as a result of increased production volumes and experience curve effects 2. Sales volume peaks and market saturation is reached 3. New competitors enter the market 4. Prices tend to drop due to the proliferation of competing products 5. Brand differentiation and feature diversification is emphasized to maintain or increase market share 6. Profits decline
Stage 5: Decline	1. Costs increase due to some loss of economies of scale 2. Sales volume declines 3. Prices and profitability diminish 4. Profit becomes more a challenge of production/distribution efficiency than increased sales

Using the Product Life Cycle

The product life cycle can be a useful tool in planning for the life of the product, but it has a number of limitations.

Not all products follow a smooth and predictable growth path. Some products are tied to specific business cycles or have seasonal factors that impact growth. For example, enrollment in higher education tracks closely with economic trends. When there is an economic downturn, more people lose jobs and enroll in college to improve their job prospects. When the economy improves and more people are fully employed, college enrollments drop. This does not necessarily mean that education is in decline, only that it is in a down cycle.

Furthermore, evidence suggests that the PLC framework holds true for industry segments but not necessarily for individual brands or projects, which are likely to experience greater variability.

Of course, changes in other elements of the marketing mix can also affect the performance of the product during

its life cycle. Change in the competitive situation during each of these stages may have a much greater impact on the marketing approach than the PLC itself. An effective promotional program or a dramatic lowering of price may improve the sales picture in the decline period, at least temporarily. Usually, the improvements brought about by non-product tactics are relatively short-lived, and basic alterations to product offerings provide longer benefits.

Whether one accepts the S-shaped curve as a valid sales pattern or as a pattern that holds only for some products (but not for others), the PLC concept can still be very useful. It offers a framework for dealing systematically with product marketing issues and activities. The marketer needs to be aware of the generalizations that apply to a given product as it moves through the various stages.

2.7 USING THE MARKETING MIX

Learning Objectives

Explain how organizations use the marketing mix to market to their target customers

Now that we know what tools are available to create value, how can we use them most effectively? In this section we'll cover a number of examples; later in the course we'll discuss the role of the marketing mix in the planning process and in a range of specific applications.

As you begin to understand each of the individual components of the marketing mix, remember that none of the four Ps operates independently to create value for the customer. For instance, a higher price will create higher expectations for the quality of the product or service, and may demand a higher level of customer service in the distribution process. Heavy promotion of a product can create greater awareness of the value that is expected, increasing the importance of the product delivering value. The right mix of components supporting the value proposition becomes very important.

Learning Activities

- Reading: Finding the Right Marketing Mix
- Case Study: Chobani

How does an organisation determine the right marketing mix? The answer depends on the organisation's goals. Think of the marketing mix as a recipe that can be adjusted—through small adjustments or dramatic changes—to support broader company goals.

Decisions about the marketing-mix variables are interrelated. Each of the marketing mix variables must be coordinated with the other elements of the marketing program.

Consider, for a moment, the simple selection of hair shampoo. Let's consider three different brands of shampoo: Discount, Upscale, and Premium. The table below illustrates some of the elements of the marketing mix that influence decisions made by target customers.

Discount, Upscale, and Premium Shampoo Brands and the Marketing Mix

	Discount	**Upscale**	**Premium**
Product	Cleansing product, pleasant smell, low-cost packaging	Cleansing product, pleasant smell, attractive packaging	Cleansing product, pleasant smell created by named ingredients, premium packaging
Promotion	Few, if any, broad communications	National commercials show famous female "customers" with clean, bouncy hair	Differentiating features and ingredients highlighted (e.g., safe for coloured hair), as well as an emphasis on the science behind the formula. Recommended by a stylist in the salon.
Place	Distributed in grocery stores and drugstores	Distributed in grocery stores and drugstores	Distributed only in licensed salons
Price	Lowest price on the shelf	The highest price in the grocery store (8 times the prices of discount)	3 to 5 times the price of Upscale

Several credible studies suggest that there is no difference in the effectiveness of Premium or Upscale shampoo compared to Discount shampoo; however, the communication, distribution, and pricing are substantially different. Each product appeals to a very different target market. Do you buy your shampoo in a grocery store or a salon? Your answer is likely based on the marketing mix that has most influenced you.

An effective marketing mix centres on a target customer. Each element of the mix is evaluated and adjusted to provide unique value to the target customer. In our shampoo example, if the target market is affluent women who pay for expensive salon services, then reducing the price of a premium product might actually hurt sales, particularly if it leads stylists in salons to question the quality of the ingredients. Similarly, making the packaging more appealing for a discount product could have a negative impact if it increases the price even slightly *or* if it causes shoppers to visually confuse it with a more expensive product.

The goal of the marketing mix is to align marketing activities with the needs of the target customer.

In 2005, Turkish immigrant Hamdi Ulukaya bought a yogurt plant from Kraft Foods in Johnston, New York. Ulukaya had a vision of a better product: the thick, rich yogurt he had enjoyed in Turkey but couldn't find in the United States.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=119#oembed-1

You can view the transcript for "Chobani founder turns centuries old Greek yogurt into billion dollar craze". (opens in new window)

The Target Customer

Chobani started out making private-label regular yogurts for other large companies, but Ulukaya believed he could make a better yogurt than the competition. And, he had a good idea of the customers he wanted to target:

> We aimed at people who never liked yogurt. We couldn't blame them, because what was available was not what the rest of the world was eating.[1]

Further, the company chose not to target only women, a favorite target segment for the U.S. yogurt industry. Ulukaya believed that both men and women would appreciate the fresh ingredients and high protein that Chobani offered.

1. U.S. Small Business Administration. (n.d.). Chobani selected as SBA's 2012 National Entrepreneurial Success of the Year. https://www.sba.gov/offices/district/ny/syracuse/success-stories/chobani-selected-sbas-2012-national-entrepreneurial-success-year

The Chobani Product

The recipe for Chobani is thicker and creamier than regular yogurt, with twice the protein and none of the preservatives and artificial flavors found in conventional yogurt. What's in the yogurt—five live and active cultures, including three probiotics—is as important as what's not, and Chobani turned this competitive advantage into the yogurt's slogan: "Nothing but Good." Ulukaya described the philosophy behind the product:

> We look at our yogurt as pure, healthy, simple, and something that you enjoy tasting. That is very, very important for us.[2]

Brad P. (2010, February 11). Chobani Unboxing 05. CC BY 2.0 Frickr. https://www.@ickr.com/photos/ bpende/ 4349120979/

The Chobani Place

Existing Greek yogurt lines were most often sold in expensive specialty stores. Ulukaya hoped to sell his yogurt brand to a wider customer base through mass distribution channels of grocery store chains. After more than a year developing Chobani's trademark taste, in October 2007 Chobani's first shipment included five different flavors—blueberry, peach, strawberry, vanilla, and plain—which were sold to a single Long Island grocery store. From there the company expanded regionally and then nationally to grocery store chains. The demand for broader distribution was fueled by the promotion campaign.

The Chobani Promotion

Chobani worked to develop a two-way dialogue with happy customers.

> We're on all the major social media platforms. The growth of Chobani really started virally, where one person would try it, tell five friends who each told five friends, and it really became a brand people loved to discover on their own and tell other people about. In the online landscape, we just had really great success at being able to talk to our fans. I think one of the great things about our company is our relationship with consumers; it's really a lot of fun to hear what they have to say and take it to heart.[3] —Nicki Briggs, a registered dietitian and head of the company's communications team

Ulakaya also became a darling of the business press, which was persuaded by his philosophy that anything is possible with hard work. He was a frequent guest on national investment news programs and speaker at business conferences.

The company capitalized on the healthy and ambitious aspects of its brand, and in 2012 Chobani became the official yogurt of the U.S. Olympic Team. As a sponsor, Chobani followed athletes from U.S. Olympic training centers to the London Olympic Games.

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2. U.S. Small Business Administration. (n.d.). Chobani selected as SBA's 2012 National Entrepreneurial Success of the Year. https://www.sba.gov/offices/district/ny/syracuse/success-stories/chobani-selected-sbas-2012-national-entrepreneurial-success-yearss-year

3. Chobani yogurt: Healthy products nourishing growth. (2010). *U.S. Business Executive.* http://usbusinessexecutive.com/food-drink/case-studies/chobani-yogurt-healthy-products-nourishing-growth

Since then Chobani has also visibly committed to supporting local farmers and strengthening economic growth in the communities where it is located, which contributes to its reputation as a healthy brand.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=119#oembed-2

You can view the transcript for "Shepherd's Gift". (opens in new window)

The Chobani Price

When Chobani entered the market, prices for the traditional offerings in the market clustered around 65 cents per cup. Premium Greek yogurt costs $1.34 per cup. [4]

Chobani priced its product at roughly $1 per cup. This decision was based on the expectation that the product would be successful. Ulakaya set the price assuming economies of scale—that the company would gain efficiencies as sales increased—instead of trying to recover the early costs. The price factored in the higher cost of premium ingredients, which also supported the product and promotion goals. [5]

4. CBS Minnesota. (2012, April 26). Behind the hype: Costs and benefits of Greek yogurt. https://minnesota.cbslocal.com/2012/04/26/behind-the-hype-costs-and-benefits-of-greek-yogurt/

5. Durisin, M. (2013, May 3). Chobani CEO: Our success has nothing to do with yogurt. Business Insider. https://www.businessinsider.com/the-success-story-of-chobani-yogurt-2013-5#ixzz3l6bHLWtN

2.8 ROLE OF MARKETING PLAN

Learning Objectives

Explain the role of a marketing plan as a guiding document for marketing activities

How do organizations use the marketing mix to achieve results? This requires a clear understanding of the results that the organization hopes to achieve and a plan that brings the activities together.

The following reading gives an overview of the marketing planning process. Later we'll cover the inputs and outputs of this process in much more detail. For now, think about how planning can focus marketing efforts to deliver value to the target customer.

Learning Activities

- Reading: The Role of the Marketing Plan
- Simulation: Ice Cream Magnate

The Marketing Plan

Effective marketing requires a plan—specifically, a marketing plan. Although customers should be at the center of any marketing plan, marketing activities do not operate in a vacuum. Instead, marketing is one function within a larger organization, and it operates within a competitive market environment. To ensure the effectiveness of marketing activities, the marketing plan must take all of these factors into account. Furthermore, once a plan is in place, it serves to guide all the marketing activities that an organization undertakes.

The marketing plan can take a variety of formats. It's often a formal document that is broadly reviewed to create alignment and support across the organization. It can also be a presentation that explains each of the objectives and strategies. Sometimes the elements of the marketing plan are presented on a company's internal Web site (or intranet), allowing all employees to access the information and see updates.

The format is less important than the impact. The marketing plan identifies the marketing objectives and explains how marketing activities will help the organization achieve its broader goals and objectives. The marketing plan describes how the company will use the marketing mix—product, promotion, place, and price—to achieve its marketing objectives effectively within the competitive market environment. The marketing plan also focuses the company's resources on reaching target customers and driving them to act.

Lumen Learning. The Role of the Marketing Plan, in Module 2. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/outcome-role-of-marketing-plan/

Marketing Plan Alignment with Company Goals

The executive leadership of a company is charged with creating the framework that aligns and focuses the work of employees: the company's mission, objectives, and strategy. The company's mission describes its purpose and explains why it exists. The executive leadership defines corporate goals and the high-level strategies that marketing activities should support.

NIAID. (2011, April 12). Study of human immune response to HIV [Photograph]. https://www.@ickr.com/photos/niaid/5613410129/

Informed by corporate goals and strategies, marketers develop marketing objectives to support the broader company goals. They may cover a variety of areas: company growth, sales, market share, profitability, customer perceptions, market penetration, and so forth. The marketing objectives represent a set of measurable goals, tied to marketing activity, that align with and move the company towards its corporate mission and goals.

For example, Bristol-Myers Squibb is a pharmaceutical company with a mission to discover, develop, and deliver innovative medicines that help patients combat and recover from serious diseases. The company's business strategy focuses on the manufacturing and distribution of medication, but it's also engaged in medical research and the discovery of new treatments. Both the mission and strategy inform the marketing plan. The company's marketing objectives and strategy should reinforce customer perceptions about the company's biotech innovation and commitment to promising pharmaceutical breakthroughs.

Marketing Plan Input: Situation Analysis

Beyond the company's purpose and focus, the marketing plan must take into account a range of internal and external factors that can be very complex. A *situation analysis* examines both the internal and external factors that might impact the marketing plan.

Internally, the company has both strengths and weaknesses that will influence the plan, such as its products, workforce, market perceptions, and other characteristics that give it advantages or disadvantages in the market. Outside the organization, there are a range of opportunities and threats such as competitors, economic forces, government regulations, and other political factors.

The situation analysis helps refine corporate goals and produce a relevant set of marketing objectives. At the corporate level, typical objectives include profitability, cost savings, growth, market share improvement, risk containment, reputation, and so on. These corporate objectives can be translated into specific, measurable marketing objectives. For example, the marketing objective "Introduce three new products" might lead marketers to support corporate goals on profitability, increased market share, and movement into new markets. A corporate goal of "Increase profit margins" might dictate marketing objectives around product innovation, quality of materials, and the price charged.

Translating Marketing Objectives into Strategies and Tactics

Once the organization has conducted a situation analysis and identified its marketing objectives, the next step is to figure out what strategies will be most effective and the tactics that will be used to carry them out. You will learn

more about the differences between strategy and tactics later on; for now, think of the strategy as the "big idea," or approach, and tactics as "the details"—the specific actions that will be taken to make the big idea a reality and help the organization reach its goals. For example, if you're a chess player, your strategy might be to "keep your opponent on the defensive," and one of your tactics might be to "take the opponent's queen as early in the game as possible." Your goal, or objective, is to win the game.

Obviously, a marketing plan needs to include actual *plans,* and that's where strategy and tactics come in. Though it's crucial for a marketing plan to be aligned with an organization's mission and mindful of its target customers, its competitors, and so on, it's just as important to have a plan of action that spells out exactly how the organization's resources will be used to reach its goals. Strategies and tactics are the key components of that action plan.

Marketing Plan Implementation and Evaluation

Once the plan is in place, the organization begins to implement the strategies. Successful marketing strategies require effective implementation. For example, if the organization has a promotional strategy to launch a social media campaign, then significant work is required to hone the message, manage social media tools, and encourage customers to engage. The strategy cannot achieve results if it is not executed well.

How will you know if it has been executed well? Marketing organizations need to identify what constitutes a successful marketing campaign and then measure the results to determine whether it had the desired impact. Did it reach the desired customers? Was it cost-effective? Did it generate the sales expected? Were the metrics for the specific elements of the campaign successful? Marketing metrics might include the number of customers viewing an advertisement, the number of social media "shares" or "likes," the number of visits to a website, the proportion of new customers vs. existing customers, customer spending levels, etc. The right set of marketing metrics depends on what you are trying to accomplish with the marketing campaign.

Marketers should capture and analyze the appropriate metrics to understand the success of marketing activities—to improve planning and future results.

Try It

Now that you've learned about the marketing mix and how it works, it's time to give it a try yourself.

The simulation below gives you a chance to take a "great business idea"—in this case, *ice cream*—and play around with the four Ps of marketing.

Try the simulation a few times to see how different choices lead to different outcomes. In a simulation it's good try out choices you think are right, as well as those you suspect are wrong, since you can learn from both. All simulations allow unlimited attempts so you can gain experience exploring and applying the concepts.

An interactive H5P element has been excluded from this version of the text. You can view it online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=125#h5p-2

https://www.branchtrack.com/projects/2k6pf497/embed

2.9 PUTTING IT TOGETHER: MARKETING FUNCTION

The Four Ps of Marketing Yourself

Now that you have a deeper understanding of the marketing function, let's return to where we began in this module: marketing yourself as a new college graduate in the job market. How can the concepts of the four Ps and the marketing mix help you market yourself to prospective employers?

Product

Product is the set of goods and services you offer. As a job candidate, you possess a unique set of experiences, interests, skills, and capabilities that make you a great match for certain kinds of jobs. These are your "product features." Your "product strategy" is to align your features with the jobs, employers, and industries you're going after. Competing effectively might mean drawing attention to the particular capabilities or features they want. Or it could mean adding a new skill set to make you a more compelling candidate.

Promotion

Promotion is how you communicate and provide information about your product. When you're job hunting, your promotional strategy is usually to show that you're the best candidate for the position. You should communicate this in all the forms that employers might be seeking information: your résumé, references, interviews, job sites, and so forth. Since each employer may be looking for something slightly different, you'll want to tailor your résumé and other tools to fit the opportunity. Communicating the right things to the right audiences is an essential part of effective promotion.

Place (Distribution)

Place means delivering your product into settings where your target audience will see and buy. For job candidates today, this generally means using all available networks to connect with prospective employers. Personal networking among friends, family, and associates can help you find out who's hiring and meet people working in your chosen field. Attending job fairs, professional meet-ups, and networking lunches is another good way to meet potential employers and people who can recommend you for professional opportunities. The "place" game is about being where your buyer is likely to find you.

Price

Price focuses on the exchange of value and making sure the exchange is worthwhile for both the buyer and the seller. In a hiring transaction, price is the compensation you receive in exchange for the labor and expertise you provide to your employer. As a job candidate, you should research benchmark salaries for recent graduates working in the posi-

tion you're seeking. Such information can help you set realistic requirements around salary and benefits and know when it makes sense to ask for more. When you understand market dynamics around price, you can avoid pricing yourself out of the market and leaving value on the table.

Executing a Marketing Plan

With your marketing mix defined, you have defined strategies to help you find job opportunities that fit your goals. You have also identified essential tactics to help you take advantage of the opportunities you find. This is how the marketing function comes together. As you work through these tactics and make progress in your job search, you can evaluate what is effective and focus on the most promising activities.

In this case, your marketing success is easy to gauge: you'll know you've succeeded when you land the job you wanted!

Lumen Learning. Defining the Marketing Mix, in Module 2. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/outcome-marketing-mix/

CHAPTER 3: USING THE 5CS TO ANALYSE THE MACROENVIRONMENT

Learning Objectives

- Describe the environment that affects a company's ability to serve its customers
- Explain the 5Cs framework
- Apply the use of Context (and the PESTE framework)
- Apply the use of Company (and the SWOT framework)
- Apply the use of Competition (and the Five-Forces framework)
- Apply the use of Collaborators
- Explain how Customer analysis is achieved through the STP framework

3.1 WHY IT MATTERS: ANALYSING THE MACROENVIRONMENT

Roy Larke

Learning Objectives

- Describe the environment that affects a company's ability to serve its customers

Understanding the Environment Surrounding a Business

No business exists in isolation. The environment in which a business operates directly affects its capabilities and opportunities, and this environment changes constantly. As marketing aims to meet the needs of a company's customers, the business environment has a more profound impact on marketing than on most other business functions because customers live within the same environment and are outside of the company's control – although, through marketing, businesses seek to influence customers' decisions and behaviour.

By carefully analysing the environment in which a business exists, companies can better plan how they operate and, in particular, can better adjust their marketing to fit that environment. As a result, this analysis becomes a fundamental first step in marketing planning. It involves careful study and analysis of many external factors that may affect the business, as well as a detailed understanding of the company's own capabilities and how they interact with the environment around it.

What is the Macroenvironment?

According to Investopedia, the microenvironment can be summarised as:

- The macroenvironment refers to the broader condition of an economy as opposed to specific markets.
- The macroenvironment can be affected by GDP, fiscal policy, monetary policy, inflation, employment rates, and consumer sentiment.
- The state of the macro environment affects business decisions on things such as marketing, competitor behaviour and customer behaviour.

This includes the many social, political and cultural forces that affect the environment in which a business works. These include demographic, economic, technological, and natural or ecological factors.

Roy Larke

The Marketing Planning Process

Photo by fauxels: https://www.pexels.com/photo/people-discuss-about-graphs-and-rates-3184292/

The marketing planning process is a part of all business planning – all businesses must offer value to its customers to succeed, and the marketing plan is the first step in identifying both the customers and their needs, as well as ways in which the company and its brands will meet those needs.

Planning is very important. For example, banks and other finance providers will expect to see detailed plans before they will agree to provide funding.

The Business Plan

At its most basic, marketing planning consists of three main activities when planning marketing. At the highest level, companies carry out ***business planning***. Business planning consists of making decisions to guide the company over both the short-term (usually 6-12 months) and the long-term (a year or more, but usually up to five years).

A business plan will cover all aspects of a company's business and how the owners or senior managers hope to improve the business over time. You can learn more about business plans on the government's business planning website.

A business plan will include a lot of information, some of which will also be useful for marketing planning below. This information may include:

- A description of your business and your business's mission statement

- Key metrics relating to your business such as:
  - Revenue or sales
  - Cost and Profit figures
  - Assets
  - Employee numbers and skill data
- External factors affecting your business (both positive and negative ones)
- Internal factors affecting your business (what your business is good at and what it is not good at)
- Major goals
- Key objectives

Setting goals (major and general outcomes the company wishes to achieve) and objectives (more focused actions that will help the company achieve its goals) is an important part of all planning.

Example of Goals and Objectives

GOAL: Increase sales by 10% within 12 months

- Objective 1: run an advertising campaign targeting 20-30-year-old women with average household incomes of $68,000 or more, living in the Waikato Region.
- Objective 2: introduce new package designs using colours preferred by respondents in our market research

The Marketing Plan

Within the business plan, you will include more details of certain aspects of your business operations, such as a finance plan, a personnel plan and so on. One of these will be the ***Marketing Plan***.

The Marketing Plan provides a data-focused analysis of the market and environment in which the company operates, with a particular focus on the business's target customers. A marketing plan will include both medium-term and short-term goals and objectives.

The Marketing Mix Application Plan

Within the Marketing Plan, a key component will be a plan for how the company will apply its Marketing Mix. The Marketing Mix is also commonly referred to as the 7Ps (or sometimes 4Ps). The application plan outlines how a company will make adjustments to each of these factors, and those adjustments usually relate to the short-term (6-12 months or sometimes less):

Marketing Mix Decision Examples

1. **Product**: how will your products (or services) meet the needs of your customers?
2. **Place**: how will your customers access your products (or services) and what will be their experience when doing so?
3. **Price**: in monetary terms, how much value do your products and services offer to customers, and how much profit does this allow you to capture?
4. **Promotion**: how will you tell your customers about your products and services, and what do you want customers to think about those products & services?
5. **People**: which people will customers interact with when experiencing your services?
6. **Processes**: what kind of experience will your customers have when using your services?
7. **Physical Evidence**: in what kind of environment, atmosphere, ambience, or circumstances will customers experience your service?

Why do you need a business plan?

A business plan and its parts are living documents. They are not static documents that are created once and then forgotten. They are important documents that set out the environment in which the business operates, what the business does, and what the business plans to do in the future. These documents change and evolve over time, sometimes by a little and sometimes by a lot.

As we said above, plans are often key documents needed when applying for funding, such as a bank loan. They show evidence that a business is being well managed and that it has prospects for growth – and so it is likely to show a return on the investment of the money it receives.

In addition, a good business plan helps entrepreneurs focus on the key objectives they need to meet in order to achieve their overall goals and so to help the business to succeed.

Roy Larke

Frameworks for Marketing Plans

There are many frameworks used to create a marketing plan. A framework does what its name implies: it provides a structured set of guidelines around which to build something, in this case, a marketing plan. The idea of a framework is that, if you follow the guides carefully, you will have a complete and actionable plan.

Some of the frameworks you study can be applied in many different situations – they are not just for marketing planning. There are also a lot of them. Hubspot provides a summary of some of the most common, several of which we will introduce below.

For our purposes, we will introduce several fairly simple frameworks that you can apply throughout your studies.

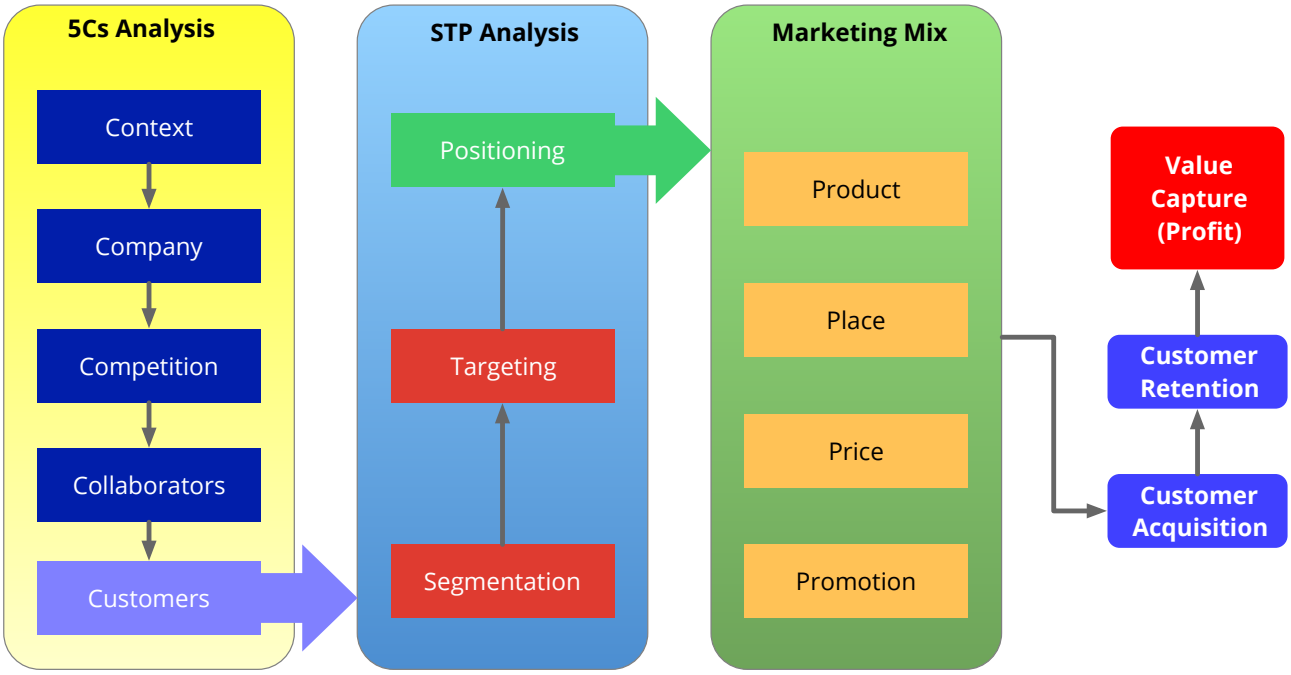
A Framework for Studying Marketing 101

Here we use a number of overlapping frameworks that split the job of marketing planning into three parts:

1. Macroenvironment planning
2. Customer market planning
3. Marketing Mix planning

Within each one, we use other sub-frameworks to help you organise the content that you need to analyse and understand. The overall structure of the planning content looks like this:

Marketing 101: Course Content & Structure



Source: Adapted from Silk, A. (2006) What is marketing? Harvard Business Review Press.

5Cs Macro Analysis Framework

The analysis of the microenvironment follows a 5Cs framework consisting of separate sub-sections in order from broadest to narrowest:

1. Context
2. Company
3. Competition
4. Collaborators
5. Customers

In turn, the customer section of the 5Cs framework leads to the second part of the planning process, the STP analysis:

STP Analysis

The STP analysis provides a detailed picture of who the company's customers are (and, as a result, who its customers are not, and so the types of customers who the company does not need to invest marketing resources into). The STP analysis also has three sections in order from broadest to narrowest:

1. Segmentation
2. Targeting
3. Positioning

In turn, the positioning section of the STP framework leads to the third part of the planning process, the 4Ps analysis:

4Ps: Positioning

The 4Ps analysis consists of further sub-sections. If we were marketing services, we'd focus on 7Ps, adding in People, Processes and Physical Evidence, but in this case, we focus specifically on product marketing (marketing of tangible products), which covers:

1. Product
2. Place
3. Price
4. Promotion

We will return to this framework again and again throughout the course. It is also one that can be used for report writing and planning in many different situations.

Key Takeaways

In the next section of this chapter, we will look at each section of the 5Cs framework in detail.

3.2 EXPLORING THE 5CS FRAMEWORK

Roy Larke

Learning Objectives

- Explain the 5Cs framework

The 5Cs Framework

When studying marketing, you may hear of many types of 5Cs and 3Cs and other 'Cs' frameworks. In this case, we use the 5Cs framework published in "What is marketing?" a short book by Alvin Silk from 2006, which provides a brief but useful summary of a variety of marketing concepts. In Silk's book, and in various other Harvard Business materials, the 5Cs framework is used as a starting point for marketing planning, specifically to understand the microenvironment surrounding a business. There are other frameworks that can be used, but the 5Cs provides and easy and intuitive way to consider and write about key aspects of the marketing environment.

As with all marketing, the customer is the most important element of analysis. Knowing who is (and who isn't your customer) helps define how you will implement your marketing. However, for the 5Cs, we look from the broadest macroenvironment down to the most specific aspects of the customer needs and profile.

5Cs Analysis

Source: Adapted from Silk, A. (2006) What is marketing? Harvard Business Review Press.

You should prepare your reports in the following order:

1. Context

Context refers to the greater macroenvironment that surrounds a business. This generally refers to the political, economic, social, technological and ecological conditions in which the company operates. These conditions do change overtime, and reports should focus on how those conditions are changing. It is not usual to dwell on the past, but

rather consider how things will change in the future. Also, when discussing context, you should be discussing factors that are purely external to the company, for example the industry in which the company operates.

2. Company

Once you have analysed the Context, you can then move on to analyse the company. This can involve a wide range of data and analyses, but for the purposes of this course, we will look purely at the internal strengths and weaknesses of the company, and the external opportunities and threats the company faces.

3. Competition

Competition analysis refers to the competitive market in which the company and its brands operate. You should know who your competitors are, what their role is within the market, and the strengths and weaknesses of each. You should also be able to make market comparisons between what your competitors offer and what you offer.

4. Collaborators

All businesses require help and support from other people, businesses and organisations. This varies from accountants, banks and other finance providers, personnel agencies, support services, repair services, training services, suppliers, resellers, promotional partners and so on. For the purposes of the marketing plan, we concentrate on just three of these collaborators who have the most impact on the marketing of a business: suppliers, distributors, and promotional partners.

5. Customers

Finally, but most importantly, the last part of the 5Cs is customers. Customers are the core of any business, as no business can succeed without customers. You should be able to briefly describe the characteristics of your most likely customers, but you will undertake a far more detailed analysis of the people (or businesses) who you will to through STP.

3.3 CONTEXT

Roy Larke

Learning Objectives

- Apply the use of Context (and the PESTE framework)

5Cs: Applying Context for Business Planning

5Cs Analysis: Context

Source: Adapted from Silk, A. (2006) What is marketing? Harvard Business Review Press.

Context refers to the external microenvironment in which a business operates. This is everything outside the company's control, but which may impact the company's business or the lives and businesses of the company's customers.

Context is the broadest external view of what is going on in a particular market, such as in the New Zealand market. Most people are aware of the important current trends happening in the market where they live. For example, most people know that "inflation is making things more expensive", or "crime is on the increase", or "children are becoming more technologically savvy."

For business planning, companies need to synthesise these many, many trends into key elements that could well come to affect the environment in which the business operates.

Important Aspects of Context

There are a lot of things happening all the time, but not all of them are relevant to specific businesses. At the same time, there are some major events, such as Covid or wars, that happened in the recent past or far away from a particular market, that may no longer have a direct impact on a business.

For this reason, when writing the key components of context, you should consider three things:

1. Context refers to the external macroenvironment

When writing about the context, you should write about trends that are external to the company's business. This means that you will be writing about trends in the economy, society and culture, not trends happening in the specific business.

In most cases, you will be looking at trends that affect the industry in which a business operates – i.e. you are taking a broad view of what is happening and looking at trends that will affect ***all*** businesses in the same industry, of which your company is just one of them.

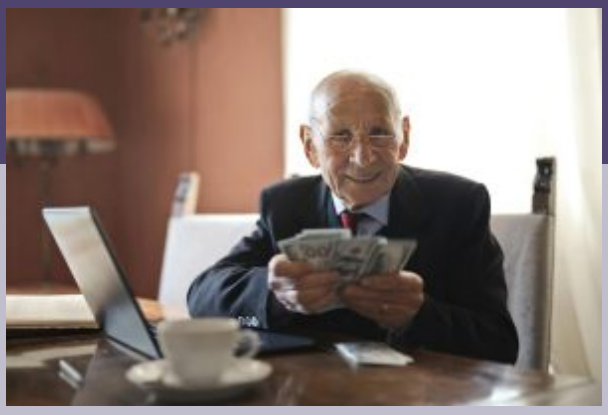


Photo by Andrea Piacquadio

Context Change: A change in taxes

An upcoming change of government may mean lower taxes for the wealthier segments of society, providing more spending power for people with higher incomes and boosting markets such as expensive cars, real estate and luxury travel[1]. The same change may also mean proportionally higher costs of anyone on lower incomes, which may mean changes in buying behaviour among mass market consumers.

Companies do not have any control over tax policy, but both the company and their customers will be affected by it. It is, therefore, an example of an important external trend. The same would be true for any government policy that affects a particular industry.

2. Context should focus on future change

There may have been some major events in the recent past or even events that are happening right now, but for planning purposes, companies need to focus on what will happen in the future. The future is impossible to predict accurately, but by attempting to make some general predictions, companies can be prepared for key changes. In particular, businesses are interested in what will happen over the next 12 months, although sometimes companies try to look much further into the future.

For this reason, when writing about context, you should focus on trends that are happening now and which are likely to continue, accelerate or decline in the future. You are always trying to think of what will most likely happen

1. National's Tax Plan and Costings: What you need to know.

in the future. So, for example, discussing the impact of Covid, which happened in the past, is no longer important for context planning.

Photo by Nik Oak

Context Change: Electric Planes

As consumers become increasingly aware and concerned about global warming and climate change, industries that are known polluters are likely to be impacted – and corresponding sub-industries would also feel the impact.

In 2024, air travel is almost entirely dependent on fossil fuels and all air travel and air freight is polluting. While there are no alternatives, people and goods will continue to travel by air, but as consumers become increasingly concerned, some will choose not to use airlines.

At the same time, when some more innovative air transport providers come up with less polluting aircraft, they could quickly cause consumer demand to shift.[2].

Such a change would affect airlines, air freight providers, travel agencies, tourist industries, and many others.

3. Context needs to be relevant to the industry in which the company operates

Finally, the discussion of context must be literally in context. There are many trends happening all the time, but not all of them will affect a particular industry. When writing about context, you should attempt to include trends and elements that are likely to affect the industry in which a business operates, but you should not include (or not provide detail) for trends that are unlikely to impact the industry. In other words, you should include only relevant trends.

2. Electric plane set to deliver mail across New Zealand in decarbonisation push

Photo by Irina Iriser

Context Change: Scrapping of Generational Smoking Ban

of individual politics, the New Zealand government received worldwide acclaim for introducing the world's first law that would affecting ban future generations from smoking.[3].

This would have an enormous future impact on any business providing health care, and on the revenues of cigarette manufacturers and retailers. It may have had an indirect impact on exercise and sports companies too. But it may have had relatively no affect (or at least no direct affect) on many other businesses such as restaurants (where smoking is already prohibited), car sales, computer services and so on. A business would only include this point if it were directly affected and so the trend was relevant to its own business.

The recent reversal of this policy will also have an impact on some businesses.[4]

3. New Zealand passes world-first tobacco law to ban smoking for next generation

4. New Zealand scraps world first smoking generation ban

Roy Larke

Using PESTE for Context Analysis

In summary, context analysis represents a written plan that outlines the **key**, r**elevant, future, externa**l trends that might affect the industry in which a business operates.

To write a context analysis, one of the easiest ways is to use another very common sub-framework called "PEST". PEST stands for:

- Political Trends
- Economic Trends
- Social Trends
- Technological Trends

Nowadays, PEST is most commonly expanded to include other common factors, notably Legal Trends (or Legislative Trends) and Environmental Trends (or Ecological Trends). So you may see the same framework written as PESTE, PESTEL or some other form, such as TEPLS, which places Technological Trends first for industries such as digital marketing.

For MRKTG101, we omit Legal Trends as these can be complex and very specific to particular industries, so we use PESTE.

When writing a context analysis, you should write a single sub-section for each of P, E, S, T, and E. The rules of each of these sub-sections are the same as for context analysis overall: you should discuss trends relating to the industry in which the business operates (not relating to the business itself), trends relating to the future (not something that happened in the past), and you should include only relevant trends.

Sub-Category	Examples of possible trends	Citations
Political	• Changes to specific government policies related to the industry or the industry's customers. • Changes to government political philosophy due to a future election • Changes to local government policy or spending • Changes to public opinion on topics related to the industry	Add citations for each trend.
Economic	• Changes to incomes • Changes to prices (inflation) • Changes to employment • Changes to the industry's ability to import/export	Add citations for each trend.
Social	• Changes to public perceptions or sentiment • Changes to beliefs or attitudes • Changes to interests • Changes to public feelings or confidence • Consumer ability and willingness to spend • Wealth imbalances • Social, cultural or racial changes in a society • Ageing, poverty and other problems	Add citations for each trend.
Technological	• Changes to technology specific to the industry being analysed • Changes to technology used by customers relating to the industry • Changes to technology supporting the industry • Changes to operating procedures	Add citations for each trend.
Environmental	• Changes to customer attitudes towards how the industry affects global warming or emissions • Changes to technology that will impact the industry's emissions • Changes to international standards that will affect the industry at home • Changes to demand for ecologically friendly businesses and products	Add citations for each trend.

By completing the most relevant points for the specific industry under each of P, E, S, T, and E, you will have a simple but useful context analysis.

IMPORTANT:

1. Remember that this is a researched analysis, not a personal opinion. You may well know some of the current trends, because you've seen it in the news, read it online, or discussed it with your friends. To turn those opinions into useful facts, it is essential that each point you make is researched and backed up through citations to the information you found.
2. Many of these trends are proven through data. Wherever possible, you should include specific figures and data that prove the trend you are discussing. For example:"New Zealand is experiencing high inflation in 2023, which puts pressure on households' ability to spend, but there are signs that inflation will fall in 2024 (Stats NZ, 2023)."
3. In addition to naming the trend, (e.g. "New Zealand is experiencing high inflation") it is important to inter-

pret that trend for the industry in question. In other words, say what this will mean for the industry in the future. For the kiwi industry for example:"New Zealand is experiencing high inflation in 2023, which puts pressure on households' ability to spend, but there are signs that inflation will fall in 2024 (Stats NZ, 2023). This means that we may see people beginning to spend more on fruits and vegetables in the coming year."

Context: Key Takeaways

Context is the first of the 5Cs. You should use a PESTE analysis as a sub-framework to make writing about the context surrounding a business easy. Focus on the relevant, key, external, future trends that will affect the industry in which the business operates:

- Political Trends
- Economic Trends
- Social Trends
- Technological Trends
- Environmental Trends

3.4 COMPANY ANALYSIS

Roy Larke

Learning Objectives

- Apply the use of Company (and the SWOT framework)

Once your Context Analysis is complete, we then turn to the next step in the 5Cs framework: Company Analysis. Again there are many different ways, tools and sub-frameworks that can be used to analyse a company's condition and situation. Companies can be considered in terms of their mission and goals, their financial health and performance, their resource capabilities, their personnel, their senior management, their products and services, their brands and so on.

For our purposes in developing a basic marketing plan, we will use two sub-frameworks to analyse a company's position within a market:

1. Company Mission
2. SWOT Analysis

Company Mission Statements

A company mission is a statement that explains in simple and concise terms the company's purpose for being.[1] It is short and simple because it has two main purposes:

1. The statement should define the company's purpose, providing the basic indication of the company's reason for existence and operation. This can then be easily communicated to people outside the company.
2. The statement can also be used to define the company in the eyes of its employees, providing direction and motivation for their decisions and actions.

The company mission statement is simply the starting point for company strategy. The complete strategy will be

1. Gorton, D., Howard, E., Kvilhaug, S. (2023) Mission Statement Explained: How it works and examples, Investopedia. Accessed December 2023.

much more detailed and often consist of a large volume of documents, but the mission statement provides the basis for the strategy.

As noted by Gorton et al., (2023):

- A mission statement is used by a company to explain, in simple and concise terms, its purpose(s) for being.
- It is usually one sentence or a short paragraph explaining a company's culture, values, and ethics.
- Mission statements serve several purposes, including motivating employees and reassuring investors of the company's future.
- To craft a mission statement, consider how your company impacts customers, donors, investors, or your community and why you strive to help these parties.
- A mission statement might slightly overlap other marketing content, but it is different from a vision statement, value statement, brand, or slogan.

Roy Larke

Mission Statements in a Marketing Context

A mission statement should define the company's purpose, but the wording can have a deeper meaning. On the one hand, it could be a fairly vague philosophical statement. Although more of a motto or slogan than a real mission statement, in 2000, not long after the company was first founded, Google used the statement:

"Don't be evil."

See: Wikipedia.

This simple statement was supposed to summarise why Google existed and the way it and its employees were supposed to behave:

> Don't be evil. We believe strongly that in the long term, we will be better served—as shareholders and in all other ways—by a company that does good things for the world, even if we forgo some short-term gains. (see Wikipedia quoting Ovide, 2011).

Nowadays, Google has a much more functional mission statement:

Google's Mission Statement

"Google's mission is to organize the world's information and make it universally accessible and useful. " (See Google)

The important thing to note about a good mission statement is that it will specify what value the company will provide – which in turn means what value customers will receive. In Google's case, the company aims to "make the world's information universally accessible and useful." This is different to what it actually does, which involves a lot of programming, running server farms and data centres, and providing an advertising platform to name just three things that the company does.

When comparing mission statements, it is usually easy to spot a company that has a marketing orientation versus one that has a product orientation. Having a marketing orientation in the mission statement provides a basic platform to encourage both employees and external stakeholders to consider what the company aims to do for its customers. And, without customers, a company may not have any existence at all.

Key Takeaways: Mission Statements for Marketing

For marketing purposes, mission statements should:

1. Define the company's core reason for existence in a short, simple sentence or paragraph
2. Express the company's existence in terms of the value it offers to customers

Roy Larke

Some Examples of Mission Statements

When looking at what companies do and then comparing those simple facts with their mission statements, it is often easy to see how the mission statement seeks to define the company's existence in terms of its value to its customers.

What Starbucks does	Starbuck's Mission
We sell coffee and snacks.	We sell 'The Starbucks Experience', one that enriches people's lives one moment, one human being, one extraordinary cup of coffee at a time.

What Instagam does	Instagram's Mission
We are a social networking app for posting photos and videos.	We help people capture and share the world's moments.

What IKEA does	IKEA's Mission
We offer a wide range of home furnishing products at low prices	We help people create a better everyday life at home.

What Amazon does	Amazon's Mission
We provide a massive global cloud infrastructure that allows you to quickly innovate, experiment and iterate.	Our **mission** is to continually raise the bar of the customer experience by using the internet and technology to help consumers find, discover and buy anything and empower businesses and content creators to maximise their success. We aim to be Earth's most customer-centric **company**.

What Apple does	Apple's Mission
Sells computers and software	Apple is committed to bringing the best user experience to its customers through its innovative hardware, software and services.

Exercise: University of Waikato Mission Statement

The University of Waikato's mission statement (University of Waikato Website) is as follows:

> *Our Mission is to combine the creation of new knowledge through research, scholarship and creative works with the dissemination of knowledge through teaching, publication, and performance for the benefit of society.*

How might you re-write this to improve the statement from a marketing point of view?

Mission Statements

All businesses should have a simple mission statement. These inform both employees and external stakeholders what the main goals and philosophy of a business are. Ideally, a good mission statement will explain very clearly and concisely what value the company offers to its customers.

Roy Larke

Company SWOT Analysis

The second sub-framework we can use to analyse the Company part of the 5Cs, is a SWOT analysis. SWOT is a very commonly used structure to consider the Strengths, Weaknesses, Opportunities and Threats related to the company. As with the PESTE analysis explained above, for a SWOT analysis, you should come up with a list of points that fit each of the four criteria. As with PESTE, there as some key rules which you should adhere to:

Strengths and weaknesses are internal to the company – they are elements which the company can control:

- Strengths are what the company is capable of doing (e.g. it has experienced executives or it has a widely used brand)
- Weaknesses are what the company cannot do (e.g. it has no experience selling in overseas markets)

Opportunities and threats are external to the company (as with Context elements) and are likely future trends – they are elements which the company cannot control:

- Opportunities are future developments or trends which the company can benefit from (e.g. the abolition of New Zealand's ban on selling cigarettes will provide sales opportunities for tobacco companies and companies selling cancer treatments)
- Threats are future developments or trends which may cause problems for the company (e.g. the same abolition of the ban on cigarettes may have a long-term effect on sales of substitutes such as sweets)
- The opportunities and threats likely to impact a company in the future will almost certainly overlap with industry level trends outlined in your PESTE analysis earlier.

SWOT Analysis Mistakes

A SWOT analysis is simple to complete, but there are some common mistakes:

The results of a company's actions are not strengths or weaknesses.

It is the capabilities of the company that are important, not the results of those capabilities. So "high sales" or "popular brands" are not strengths but rather are the results of strengths. Similarly, "low quality" or "high prices/expensive" are not weaknesses. They may be the result of weaknesses, but they are not weaknesses in themselves. (Although, remember that "high prices" are not usually a weakness even if, as a customer, you don't like it.)

You should write down the strengths and weaknesses that create the company's results, but try to avoid writing the results alone.

ACCEPTABLE	NOT ACCEPTABLE
• Experienced senior management • Excellent customer service • Strong brand characteristics • Good store locations • Strong product innovation • Strong product development skills • Innovative promotional campaigns • Competitive pricing • Good cost control (strong profitability) • Widely used customer loyalty programme	• High/low prices • Expensive/Cheap • Limited social media presence • Limited market scope • Limited finance for expansion • Few employees/few experienced employees • Low brand recognition/awareness • Low marketing budget

When writing your SWOT elements, you should explain each one and use citations as proof of research wherever possible.

Opportunities and threats are outside the company's control and future orientated

Opportunities and threats occur due to changes, trends and developments that are external to the company. So, for example, "competition" is not a threat (not an opportunity), but what competing companies do might be a threat (or opportunity). Similarly, Covid is neither a threat nor an opportunity because it is in past – opportunities and threats only arise from events that are happening now or will happen in the future.

You should write down the opportunities and threats, but make sure they are external to the company and future-orientated:

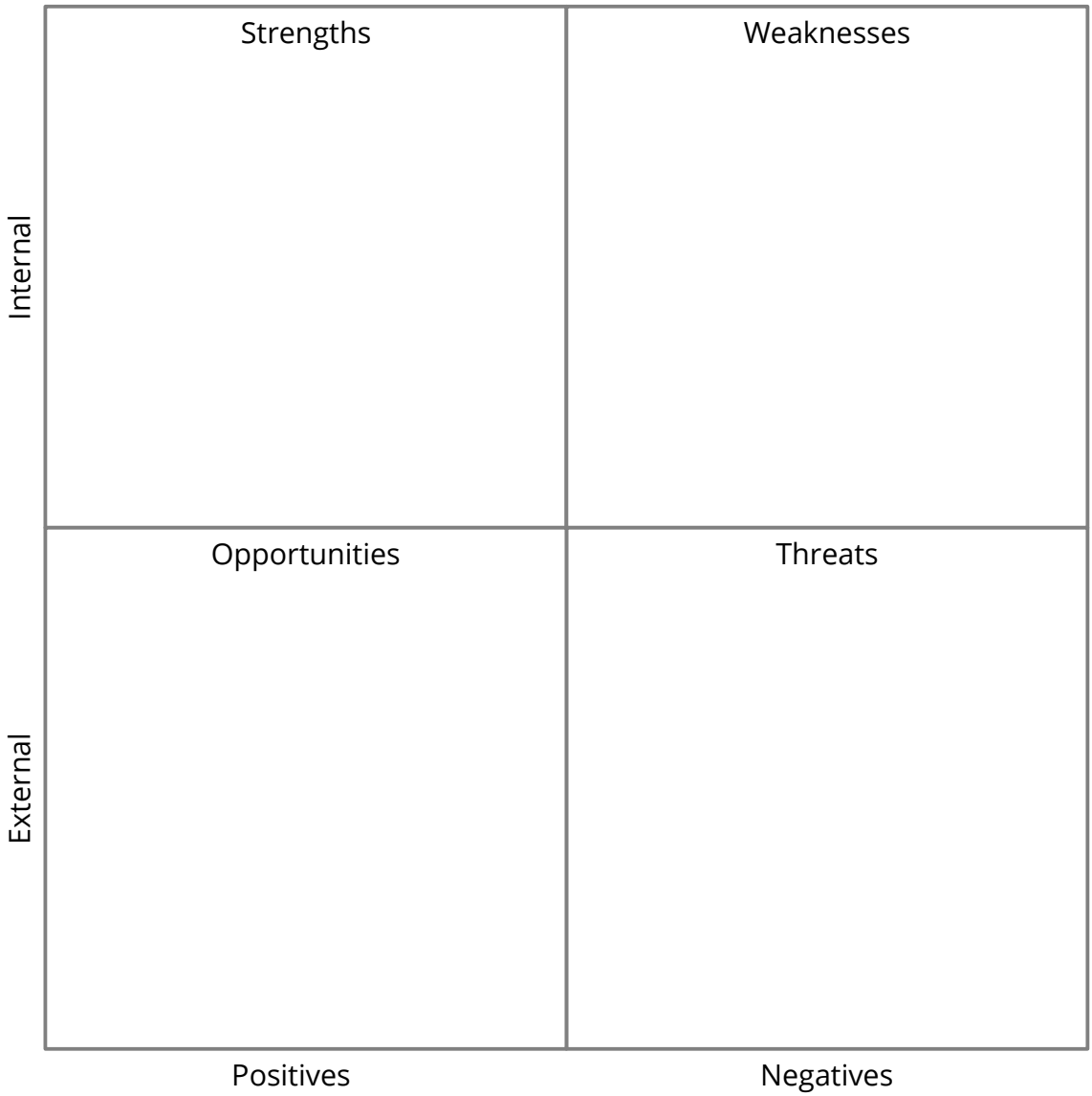
ACCEPTABLE	NOT ACCEPTABLE
• Experienced senior management • Excellent customer service • Strong brand characteristics • Good store locations • Strong product innovation • Strong product development skills • Innovative promotional campaigns • Competitive pricing • Good cost control (strong profitability) • Widely used customer loyalty programme	• High/low prices • Expensive/Cheap • Limited social media presence • Limited market scope • Limited finance for expansion • Few employees/few experienced employees • Low brand recognition/awareness • Low marketing budget

When writing your SWOT elements, you should explain each one and use citations as proof of research wherever possible.

Simple SWOT Analysis Grid

Bearing in mind the rules outlined above, a SWOT analysis can be completed in a simple 4 x 4 grid.

SIMPLE SWOT ANALYSIS GRID



SWOT Example

You will see SWOT analyses used in many types of business documents. You could potentially create a SWOT analysis for your own career and update it over time.

Imagine the case of a small, start-up company based in Hamilton, New Zealand. The company consists of just two people, who set up the company, and it creates bespoke iPhone (Apple iOS) apps for businesses. What might be a simple SWOT analysis for that company?

STRENGTHS • Good understanding of iOS development • Small scale, so low cost • Local to Hamilton, so understands local needs & businesses • Able to work quickly, providing short lead times • Hungry for success, so highly motivated	**WEAKNESSES**: • Limited access to finance because so small • Limited experience because only a start-up • Only two staff, so limited capacity to take on new work • Limited scope to work in Android
OPPORTUNITIES: • Market for bespoke apps is growing, so could expand quickly • New iPhone capabilities in each iOS upgrade • Expanding demand for iPhones • Larger market outside Hamilton, so there is potential to work with companies elsewhere.	**THREATS**: • Larger companies promoting their skills • More companies want Android apps or both Android and iOS • Demand could drop off in New Zealand as economy declines under new government

5Cs Company Analysis

When analysing companies, consider the mission and the SWOT analysis.

All companies should have a Mission Statement which briefly and clearly states why the company exists and which defines the future direction of the company that should be woven into all business planning. It defines the company's basic aims for all stakeholders.

1. Mission statements should be short and clear.
2. A good mission statement should clearly demonstrate how the company hopes to provide value to its customers.

A SWOT analysis is a simple sub-framework used to create a snapshot of a company's internal capabilities and what external trends are likely to impact the company in the near future. It should provide an analysis of the company's internal strengths and weaknesses and the external opportunities and threats. The opportunities and threats are likely to mirror the PESTE analysis done earlier.

- Strengths and weaknesses are what the company can and cannot do at the current time – its capabilities. They are not the results of those capabilities (e.g. high profits).
- Opportunities and strengths are the external trends or actions by others (e.g. competitors) which

may impact the company in the future.

3.5 COMPETITION ANALYSIS

Roy Larke

Learning Objectives

- Apply the use of Competition Analysis Techniques

Competition Analysis

The third part of the 5Cs framework is competition analysis. Again, there are many ways a company could research and evaluate its competition. In our case, we will look at one simple method that could be used as a starting point. In a real-world situation, a company would want to evaluate different competitors in much more detail, looking at every aspect of their business.

In this chapter, we consider two frameworks for analysing the competitive environment in which a company or brand operates:

- Porter's Five-Forces Framework
- Simple Competitive Analysis based on Customer Value

5Cs Analysis: Context

Source: Adapted from Silk, A. (2006) What is marketing? Harvard Business Review Press.

What is competition?

Numerous studies use and relate to Porter's model, and you'll encounter these regularly. The following provides a short summary of Porter's original work.

All industries operate in a competitive environment. If a customer has only $1 to spend, they need to choose where to spend it—with your brand or with a competitor's brand. They may also decide not to spend the $1 at all or spend it on a completely different type of product or service.

Source: Wikipedia

For example, Nutella is a popular brand of hazelnut spread found in supermarkets across the world. It is owned by Ferrero, an Italian company which also makes Ferrero Roche chocolates, Kinder eggs and many others. Ferrero is a highly secretive company[1] and one of the world's largest consumers of hazelnuts[2] and a major industrial consumer of palm oil[3].

Nutella is a premium product, but there are many other 'chocolate spread' products available, each competing with the others. So Nutella competes with all of these products for consumers' money. When shopping for hazelnut or chocolate spreads, consumers may see Nutella, or a retail brand like Pams [sic], but they may also see other alternatives such as Rose's Marmalade. This is a different product, but it serves a similar function to Nutella, so it could be considered a competitor in a category (or industry) called "breakfast spreads" or something similar. A customer may decide not to buy a sweet spread at all but rather buy something like canned tuna. These are all potential competitors, possibly redefining the industry as "sandwich fillings".

Therefore, any alternative option to a brand, product or service represents competition.

What is Competition?

"Rivalry between suppliers providing goods or services for a market." (Oxford Reference, 2023)

"In economics, **competition** is a scenario where different [firms, individuals, brands or other economic entity] are in contention to obtain goods that are limited by varying the elements of the marketing mix: price, product, promotion and place." (Wikipedia, 2023)

1. https://en.wikipedia.org/wiki/Ferrero_SpA
2. https://www.theguardian.com/business/2014/aug/13/hazelnuts-shortfall-price-rise-harvest-turkey#:~:text=Ferrero%2C%20the%20Piedmont%2Dbased%20company,to%20the%20Italian%20Trade%20Agency.
3. https://www.foodnavigator.com/Article/2023/06/23/Ferrero-makes-strong-progress-towards-sustainability-targets#:~:text=Palm%20oil%20also%20plays%20a,around%200.3%25%20of%20global%20production.

Analysing Competition

There are many ways to analyse competition. To evaluate the state of competition in an industry or within a particular market, one possible sub-framework would be the Five Forces model introduced by Professor Michael Porter from Harvard University Business School.[4]

We then look at a simple Competition Analysis method that seeks to compare brands or companies based on the value provided to customers.

4. Porter, M. (1979) How Competitive Forces Shape Stategy, Harvard Business Review, March-April.

Roy Larke

Porter's Five Competitive Forces Model

To evaluate the state of competition in an industry or within a particular market, one possible sub-framework would be the Five Forces model introduced by Professor Michael Porter from Harvard University Business School.[1]

About the Five Forces model

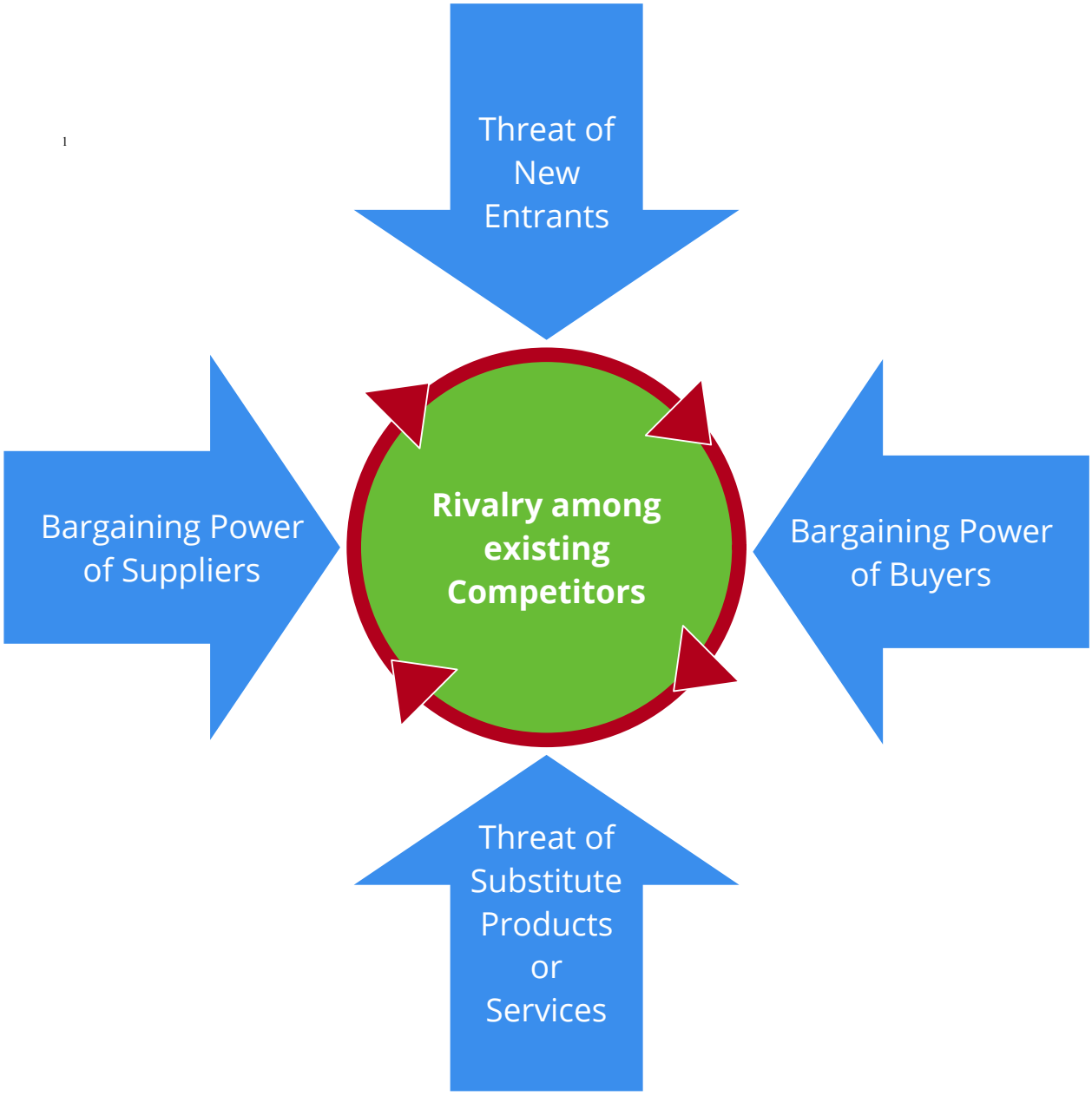
- Porter's Five Forces is a framework for analyzing a company's competitive environment.
- It is a frequently used guideline for evaluating the competitive forces that influence a variety of business sectors.
- Five Forces analysis can be used to guide business strategy to increase competitive advantage.
- It is a largely qualitative tool that provides an overview, but companies need to undertake more detailed quantitative analysis to fully understand where their business stands in comparison with competitors.

For the purposes of a 101 course, the Five Forces model is used purely as a framework to help you think about the competition surrounding a company or brand.

1. Porter, M. (2008) How Competitive Forces Shape Strategy, Harvard Business Review, January

The Five Forces that Shape Industry Competition

[1]



Source: Porter, M. (2008) The Five Competitive Forces that Shape Strategy, Harvard Business Review, January, pp. 79-83

1. Rivalry among Existing Competitors

First, you should consider all the major players within a particular market. Make a list and note any particular characteristics of each, being sure to include links and citations where needed. You should also evaluate just how intense the rivalry (competition) between these players is. Generally, there is more competition when there is a number of major players with similar levels of power or similar market attributes. Is the level of competition high, moderate or low?

Various factors affect how intense the rivalry is between players within an industry:

- The number of competitors: when there are more competitors of similar size and power, competition becomes more intense. This is actually quite a rare situation in many single-country markets.
- Industry growth rates: the slower the industry is growing, the higher the competition as companies fight for

market share. This only occurs when competitors are roughly equal.

- Exit barriers: companies can find it hard to exit an industry, and so create higher competition. Exit barriers exist because of ownership of specialised assets (e.g. owning land that can't be used for other purposes) or possibly management's love of the business (e.g. a long-standing family business).
- Literal rivalry: in some cases, individuals or companies can create additional rivalry due to personalities and ambition. Individuals (e.g. Elon Musk) can be driven by personality or ideology to succeed and so create greater rivalry within an industry.

Rivalry within markets

- **High Competition: Automobiles (cars)**
  Many competing brands with multiple different market positions from premium to low price, high function to low function.
- **Moderate Competition Ice Cream**
  Multiple brands with different positions in terms of offer, including both local and international brands.
- **Low Competition: Supermarkets**
  Despite a small number of independent stores, only two supermarket operators account for roughly 90% of all supermarket sales in New Zealand. Competition is very low and this is reflected in the relative lack of differentiation in terms of prices and variety of products. This is known by economists as an oligopoly.
- **No competition: Domestic Air Travel**
  Air New Zealand is the only major carrier operating within the New Zealand market. There are only a handful of short, local routes that Air New Zealand does not control. This is known by economists as a monopoly.

Once you have defined the core market and the main players within that market, you can then consider the four other forces that will influence competition within the market.

2. Bargaining Power of Suppliers

Again, the bargaining power of suppliers (i.e. their ability to influence the players within the market) to the industry can be high, moderate or low, or some other more quantitative measure. Suppliers have relatively high bargaining power when:

- The suppliers' own industry is less competitive than the industry that it sells to. The uncompetitive nature of air travel in New Zealand means that, as a supplier of seats on airlines, Air New Zealand has high bargaining power over travel agents.

- If suppliers serve many industries and do not rely heavily on one client industry, then they have more bargaining power.
- Suppliers have more power if their customers face high switching costs to change between suppliers. For example, for a company that uses primarily the Google Workspace suit of tools, switching to Microsoft 365 represents a significant cost.
- When suppliers provide unique products, they have more power. For example, drug companies make a range of unique pharmaceuticals with different properties, and these suppliers will have more power over hospitals and doctors than other drug companies that supply generic drugs.
- Similarly, when the suppliers have unique skills, technology or other advantages that are difficult to replicate, they have more bargaining power because all clients must use the same company to access those skills. For example, there are only two medical schools in New Zealand at University of Auckland an University of Otago. The teaching and specialisms of these schools provide significant bargaining power against the government and medical employers. The supply of pilots and other highly skilled professions through highly specialised training programmes produces a similar situation.

Some important factors that determine supplier bargaining power are a dearth of substitute offerings, switching costs for buyers, and concentration of suppliers. Industries where supplier bargaining power is high limit the negotiating leverage of the companies within the industry.

Supplier Bargaining Power Examples

High Supplier Bargaining Power:

- Pharmaceuticals – Brand drug suppliers usually have patent protections and few competitors for a specific drug type (e.g. cancer cures), enabling pricing setting power and buyer restrictions.[2]

Moderate Supplier Bargaining Power:

- Automobile manufacturing – Companies like Toyota supply differentiated offerings but ample competing models constrain pricing power. [3]

Low Supplier Bargaining Power:

- Agricultural Commodities (e.g. corn, beef, etc.): Individual farmers sell undifferentiated crop products, while these products are traded on huge commodity exchanges around the world, meaning

2. U.S. new drug price exceeds $200,000 median in 2022

3. Kanban – Toyota Production System guide

that farmers have to accept the prices dictated to them and have very little power.[4].

2. Bargaining Power of End Users

In this case, Porter uses the term. "End Users" or "Buyers" because he is referring to all types of customers and users of an industry's output. These could be consumers, but equally, they could be other businesses, governments or organisations. There is also a difference between the customer (the person or business that makes the purchase decision) and the end user (the person or business that actually consumes the product or service). End User, therefore, provides a broad-based definition of the entities to which the industry players sell.

As with supplier bargaining power, the industry's end users also have different levels of bargaining power depending on specific characteristics. The more power an End User has, the more likely that they can negotiate on price and reduce the prices they purchase at. End Users are powerful when:

- There are relatively few buyers. In this case, the industry players have few options and must carefully meet the needs of the buyers.
- The industry offers undifferentiated products or services. In this case, the buyer can easily switch to a different company, so they have more power.
- There are fewer switching costs for buyers. A good example is an industry where there are many supermarkets. Supermarkets have many buyers, which would suggest low bargaining power for those buyers, but buyers can often easily switch to a competitor.
- Buyers can threaten to taken on the same role as the industry players. This has happened in modern-day retailing, where retailers have used their access to customer data to develop their own production channels and brands, so increasing their buying power versus product manufacturers.

When end users have high price sensitivity, they also have higher buyer bargaining power. A buyer group is price-sensitive if:

- When a product or service represents a significant cost to the buyer, the buyer is more likely to shop around for better deals.
- When a buyer has relatively less money or a smaller budget, they are more likely to shop around for better deals. [5]
- When buyers are less concerned about quality, they will be more price-sensitive.

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4. Ninan, K.N. (1988) Small Farmers and Commodity Market: An Analysis of Market Participation and Price Discrimination, *Economic and Political Weekly*, 23(52/53), pp. A163-A172.

5. However, you should note that a large body of research has shown that poorer consumers often pay more than wealthier consumers for basic needs such as groceries. This is because the option to shop around is reduced due to their poverty. Many companies, such as fast food chains, have targeted this particular type of low income consumer, knowing that it is hard for them to switch to other options. See: Kunreuther ,

Most aspect of buyers' bargaining power apply to either consumers and industrial buyers. The only major difference is that while businesses spend the time and resources to plan major purchases (e.g. buying a new factory), consumers make more spur-of-the-moment purchases, meaning their decision-making is more opaque.

Buyer Bargaining Power Examples

High Buyer Bargaining Power:

- Gig economy platforms (Uber, Fiverr): people selling their labour have very little bargaining power in these systems as the buyers (Uber etc.) can easily find alternative options.[6]

Moderate Buyer Bargaining Power:

- Banking: Large customers have some negotiating leverage, smaller individual customers have very little. Products are differentiated between banks to a moderate degree, and switching is easy, but there are some costs to doing so.

Low Buyer Bargaining Power:

- Supermarkets in New Zealand: although most consumers in NZ can switch easily between one supermarket and another, only two companies control some 90% of the market, so the choice is very limited. This leads to prices that are similar across stores, and various marketing techniques that are used to obscure the lack of price differentials. There is also a lack of variety in terms of the products available across different supermarkets.[7]

3. Threats of Substitutes

The third force influencing competition within an industry is the threat of substitute products or services. In Porter's original article, he explained this as follows:

H.(1972) ,"Why the Poor May Pay More For Food: Theoretical and Empirical Evidence", in SV – Proceedings of the Third Annual Conference of the Association for Consumer Research, eds. M. Venkatesan, Chicago, IL : Association for Consumer Research, Pages: 660-678.

6. The gig economy – a changing workforce

7. RNZ (2023) Supermarket pricing complaints continue despite Consumer NZ warning in March. Accessed 19 December 2023.

> A substitute performs the same or a similar function as an industry's product by a different means. Videoconferencing is a substitute for travel. Plastic is a substitute for aluminum. E-mail is a substitute for express mail. [8]

Substitution can be either direct (as in Zoom vs Travel) or indirect, where a change in the environment leads to buyer switching behaviour. For example, New Zealand is currently seeing multiple homes being built on single lots within cities. This means that consumers who might previously have had a need for lawn mowing services may now substitute those for other gardening products and services. There are always potential substitutes for any industry's products or services, but they can be easily missed because they aren't always obvious substitutes for what is available.

Industry profitability can suffer when the threat of substitutes is high, because the option to chose substitutes limits the prices that industry players can set. Very often, when the threat of substitutes is high (or when new entrants create more substitutes) industries will take steps to mitigate the attractiveness of buyers switching to those substitutes.

The threat of a substitute is high when:

- The substitute offers better value (the price-performance trade off) compared to the industry's product.
- The cost of a buyer switching to a substitute is low.

Threat of Substitutes Examples

High Threat of Substitutes:

- Traditional Taxis: Ridesharing apps like Uber and Lyft now provide similar transport more conveniently.

Moderate Threat of Substitutes:

- Hotels: While home and apartment rentals like Airbnb offer some alternatives, business travel and conferences support hotels, and brand loyalty persists. Some customers prefer the full-service aspect of hotels over the freedom of Airbnb.

Low Threat of Substitutes:

- Sweet, carbonated drinks: although Coca Cola and Pepsi, as well as other brands of carbonated sweet drinks, face a lot of competition between brands and recipes, consumers of these drinks show a very high level of brand loyalty. Of course, consumers can substitute other drinks (e.g. sparkling water, beer etc.), but often the consumption of sweet carbonated drinks is related to a different situation (e.g. everyday use, rather than party use for beer, etc.).

8. Porter (2008)

4. Threat of New Entrants

A successful industry will always face the threat of new entrants coming in and taking market share. New entrants to an industry expand the scale and scope of an industry, but may also simple steal market share from existing players, so increasing the pressure on those existing firms. There are many famous historical examples:

- Apple entering the phone market with the iPhone
- Microsoft entering the browser market with Internet Explorer
- Tesla entering the car market with electric cars

There are also many cases of new entrants from overseas. Zara[9] and H&M[10] both entered New Zealand's fashion retail market fairly recently, and IKEA will enter the New Zealand furniture market in 2025.[11]

When the threat of new entrants is high, incumbent players may seek ways to deter new competitors—creating barriers to entry. For example, it is fairly cheap and easy to open new coffee stores, so Starbucks invested in branding, new stores and store upgrades aggressively to stay ahead of potential new entrants. As such, the threat of new entrants can be assessed by how high the barriers to entry are. Barriers to entry arise from:

1. **Supply-side economies of scale**: industries that require large capital investment, such as microchip manufacturing, are difficult to enter.
2. **Demand-side benefits of scale**: where customers trust a company because of its size, it is harder for new entrants to establish a foothold. Social media presents an example of this as customers find little value in using smaller platforms.
3. **Customer switching costs**: when it is expensive or difficult for a customer to switch to a new option, it is harder for that new entrant to establish market share. For example, a company that already uses Microsoft 365 would face high costs if it were to switch to new online platform.
4. **Capital requirements**. Related to supply-side economies of scale, industries that require large amounts of financial capital to operate naturally have high barriers to entry. This factor would apply to any mass market production process but also to banking, insurance and many other industries.
5. **Incumbency advantages that are independent of size**. Advantages such as proprietary technology, preferential access to buyers or raw materials, or simply dominance in a particular geographical location can all act as barriers to entry. The dominance of Coca-Cola is an example of this type of barrier to entry. Other companies could also produce cola, and many try, but getting customers to switch is hard because of high brand loyalty.
6. **Unequal access to distribution channels**. A new entrant will require access to distribution channels and supply chains. Restricting distribution, both legally and less legally, is a common method to increase barriers to entry. The domination of Countdown and Food Stuffs in the New Zealand supermarket industry is an example of this type of barrier.

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9. Ryan, H. (2016) World's largest fashion retailer Zara opens its doors in NZ, NZ Herald, 6 October. Accessed 19 December 2023.
10. H&M (2016) Press Release: H&M first store in New Zealand, 1 October.
11. IKEA (2023) Construction begins on first IKEA store for New Zealand. 2 June. Accessed 19 December 2023.

7. **Restrictive government policy**. Government policy can hinder or aid new entry. Many countries make it difficult for international brands to operate in competition with domestic brands, for example. Government regulations also make it difficult for new companies to enter markets such as liquor production, taxi services, public transport, medical supplies and so on.

Threat of New Entrants

High Threat of New Entrants:

- **Retailing in New Zealand**: New Zealand's retail market has evolved to support only a small number of retailers as larger companies, many of them funded from overseas, have forced out smaller ones—a situation often blamed falsely on New Zealand's small population. With so few companies operating, there is a high threat of new entrants that can offer distinct competitive advantages. Recent examples include Temu[12] and Chemist Warehouse[13], both of which newly entered the market from overseas.

Moderate Threat of New Entrants:

- **Brewing industry:** Brewing requires some equipment, knowhow and access to distribution, but it is not a difficult process and can be set up on a relatively small scale to begin with. There is also high demand for microbreweries and craft beers.

Low Threat of New Entrants:

- **Pharmaceuticals**: Researching, creating, manufacturing and distributing drugs requires very large amounts of capital and expertise and, in most countries, pharmaceutical production and sales are highly regulated, making it difficult for new entrants.

12. Turner, S. (2023) What you need to know about Temu, Reason. Accessed 20 December 2023.

13. Clayton, R. (2017) Chemist Warehouse to shake up New Zealand's pharmacy industry. Stuff. Accessed 20 December 2023.

Roy Larke

Learning Objectives

Analyse a brand's competition by comparing it with similar brands based on the key choice criteria that customers use.

Competitive Analysis

An alternative method of analysing competition is Competitive Analysis. Analysing competition is important for a number of reasons:

- It helps to understand the competitive environment in which a brand or company operates
- It allows for a comparison in performance between competitors
- It offers opportunities to identify gaps in the market that could be addressed
- It allows a brand or company to understand their weaknesses or gaps in comparison to competitors
- It helps a brand or company to develop a unique value proposition
- It is useful as a tracking tool to understand how a market is changing over time.

Getting Started with Competitive Analysis

A competitive analysis can be achieved in multiple ways. For B2C businesses, it is vitally important to consider how customers view different brands, so a good place to start is to compare brands (or companies) based on the key choice criteria used by customers in that particular market.

These criteria can vary hugely between different types of customers or in different locations, so defining the market may also be important. Some brands might be used in different ways by different people. For example, the same model of bicycle might be used by some customers for their daily commute, but others might only use the bicycle at weekends.

Step 1: Brainstorm the key choice criteria for your brand based on the value proposition

As a first step, it is important to decide why customers choose your brand. This will usually mirror the brand's value proposition. Competitors' value propositions should differ in some ways, but as competitors, they will be offering similar products that customers consider as alternatives to your own. Therefore, the choice factors that customers use will usually be similar.

Some of the things to consider when creating a detailed value proposition. You should draw on your earlier SWOT analysis for part of this:

Created by the author

Factors to consider	Questions to answer	Example
Our Uniqueness	What's unique about our company and our brand compared to any other? What makes us special? How unique is this factor within the market?	Whittaker's unique capability may be its long history as the premium chocolate brand in the New Zealand market specifically.
Market Minimal requirements	What are the minimal requirements in terms of skills and capabilities that any company or brand requires to compete in this market? (All brands should have these capabilities, e.g.)	All chocolate companies will need access to cacao and other ingredients.
Our Strengths	What does the company (or brand) do particularly well? What's really important for your brand/company (which may not be unique)?	Whittaker's chocolate is made from ethically sourced cocoa through the Rainforest Alliance. [1]
Weaknesses	What are your weak areas (especially in comparison with competitors)?	The company is small/has a small market share The brand is new/not well-known

Step 2: Competing Brands or Companies

Based on your understanding of the greater market, you should next identify key competing companies and/or brands. Remember that this will include any brand that a customer may choose as an alternative to the one you're analysing. In most cases, these will be clearly related (e.g customers choosing between a bar of Whittaker's chocolate or a bar of Nestle Kitkat), but you may also need to consider a broader range of options (e.g. customers choosing a chocolate brand or a brand of potato crisps as both as snacks).

To begin with, you should brainstorm a list of possible competing brands, ensuring that this is as broad as possible. This may well mean visiting local stores or other points of sale to see what is available. Online search is also useful here, and for many product categories, there are market reports and other secondary data sources that companies can use to understand the different competing brands within a particular sector of a particular market (although these are mostly commercial tools that are not always available for students). Some examples of these include:

- Euromonitor Passport[2]
- Marketline[3]
- Nielsen Insights
- Kantar
- Tracksuit[4]

1. Sourcing more ethical cocoa with the Rainforest Alliance

2. Available through Waikato University Library for enrolled students.

3. Available through Waikato University Library for enrolled students.

4. Supports MRKTG308 Strategic Brand Management paper at Waikato Management School.

Although these are mostly global companies, most brands need to understand the local market in which they operate. Therefore, it is important to use data sources that include specific data on the New Zealand market.

Once you have a list of competing brands, you should consolidate this down to up to 10 brands maximum based on your value proposition, market share data, and observational data in the market itself (for example, from store visits).

Make a list of these brands.

Step 3: Customer Choice Criteria

After completing a value proposition analysis, brand managers should be aware of the types of choice criteria that they expect customers to use. For example, they may consider 'Price' to be a key choice criterion. Some of the most common would be:

- Price
- Trust (of the brand)
- Options (i.e. variety of different types)
- Availability by channel (how easily customers can find the product)
- Availability in the local area

However, simply assuming that a brand knows clearly the choice criteria used by customers may be shortsighted. By observation and through feedback from retailers and so on, a brand might have a good grasp of the choice criteria used for its own products, but it's likely that:

1. The brand may overlook some criteria (e.g. customers who buy chocolate spread to use in cake decoration rather than on toast)
2. Criteria used to choose competing brands might be either subtly or completely different (e.g. some customers might avoid buying a brand because of its country of origin)
3. Criteria change over time (e.g. as customers become more aware of environmental or ethical issues, they may change the way they choose brands)

Therefore, it is usually important that companies undertake customer research to fully understand how their own and competing brands are viewed and which criteria actual customers use when deciding on the brand they will use. This might include questionnaires or focus groups, for example, where customers are asked which brands they use and why. In the same research, companies will seek to learn the choice criteria that customers may use when choosing brands.

One way to elicit clear, unbiased customer choice criteria is through focus groups using a technique such as a Repertory Grid [see: Reading: Repertory Grid as a simple Qualitative Data Collection Technique].

Some common choice criteria are:

- **Specific customer value or benefits:**
  The brand meets a specific customer need and the way it meets that need becomes a clear, tangible choice factor. For example, sausages that are good for BBQ, or shampoo that is good for dry hair, etc. Often foods are defined by their health benefits, for example.
- **Physical elements:**

What is the product made from? How is this better than competitors?

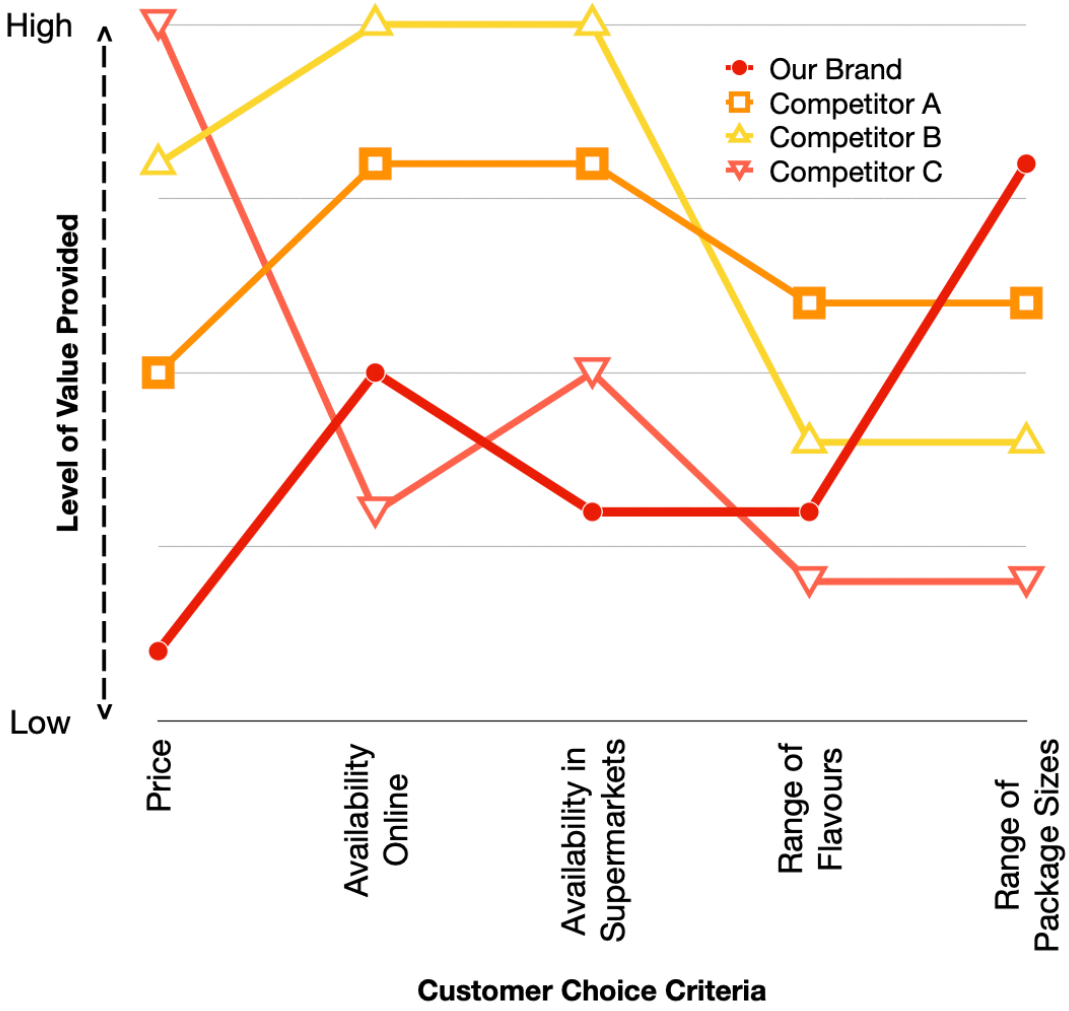
- **Price:**
  People usually look for lower prices, but sometimes, low prices suggest or are an actual indicator of lower quality.
- **Promotional elements and brand awareness**
  Different brands may have different levels of market awareness that may relate to the volume and success of the promotions they use. Having well-known promotions (or slogans or specific advertisements, etc.) can be a factor in encouraging choice.
- **Availability:**
  It should be easy to find the product where the customer wants to find it. This depends on the product type and the customer's needs. Some people want to shop at local stores, supermarkets, discount stores, online, and so on.
- **Trust:**
  How much people know, like and trust a brand.
- **Defined aspects of quality:**
  Quality is often an important choice criterion, but it is also one that needs careful definition. What constitutes higher/lower quality for the specific product category being analysed? For example, quality could be defined by the ingredients, the shelf-life, the use of natural rather than chemical additives, the impact on the environment, the packaging (design, strength, reliability, function, etc.), the ease of use or other product functionality, the taste, the feel, the look of a product and many more factors. It is vitally important to define the factors that determine quality—quality alone is both intangible and non-specific, so it is not a useful measure without further definition.
- **Quality of service:**
  Most products are augmented by services, and services alone have a quality factor. Again, the tangible substance of what constitutes quality for a particular product or service category needs to be defined.

Step 4: Competitor Comparison

Once the list of likely competitors within a specific market and a list of possible choice criteria are produced, each competitor can be evaluated against each choice criterion. This may also be done through marketing research, asking customers to rank each competing brand/company against each of the choice factors. By scoring each competing element against each factor, it is possible to produce a straightforward chart to show how brands/companies compare. When creating charts:

- Always include the main brand/company under analysis
- To ensure that charts are easy to understand and read, compare only three or four other brands/companies per chart
- Depending on the software you use, suitable chart types are line charts, spider charts, or possibly scatterplots

Example 1: Competitive Analysis Chart



Completed competitive analysis chart for Hypothetical Soft Drinks Brand in Hamilton, NZ. © Roy Larke, 2025

The example chart, based on a hypothetical soft drinks brand targeting the Hamilton market in New Zealand, shows five key choice criteria (horizontal axis) and evaluates each one relative to the others from high to low. Even such a simple chart provides some clear ideas as to how the brand compares. For example:

- Our brand has the lowest price and the widest range of package sizes. We may need to consider whether we need to provide as many package sizes as we currently do. Reducing the range of sizes may help reduce costs. More research is required to understand how much customers value the wide range of sizes.
- All but one of our competitors are more widely available online. We may need to consider selling more online.
- All of our competitors are more widely available in supermarkets in Hamilton, so we probably need to make our product more widely available.
- We are not the lowest-ranked in terms of range of flavours, but none of the brands analysed scores highly on this measure. Again, more research would determine how important the range of flavours is to our customers, but as the gap at the top right of the chart shows, there may be an opportunity to offer a wider range of flavours to improve our competitive position.

The same data can be shown in other ways. The following is exactly the same data in a spider or radar chart. Here, comparing the different areas covered in the chart by each brand, it is easy to see that our brand is weaker in most. However, as we're the cheapest, it's important to understand just how important price is to our customers.

Completed competitive analysis chart for Hypothetical Soft Drinks Brand in Hamilton, NZ. © Roy Larke, 2025

Detailed Competitive Analysis

Hubspot provides a more detailed look at competitive analysis:

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=1363#oembed-1

Further Reading on Competitive Analysis

There are many forms of competitive analysis and we present only two fairly simple methods here. It is important to systematically analyse and compare competing brands or companies within specified markets and against key customer choice criteria. This allows us to identify both problems and opportunities. It is also important to remember that the competitive landscape will change frequently, so such analysis needs to be updated on a regular basis.

There are many readings on competitive analysis. The following are a small sample:

- Newton, K. (2024) The Ultimate Guide to Competitive Analysis. 5 April. URL: https://www.brandwatch.com/blog/competitive-analysis/. Accessed 10 June 2024.
- NZTE (2024) How to analyse your competition. URL: https://my.nzte.govt.nz/article/how-to-analyse-your-market-competition. Accessed 10 June 2024.
- Team Asana (2024) How to create a competitive analysis (with examples). 23 February. URL: https://asana.com/resources/competitive-analysis-example. Accessed 10 June 2024.
- White, C. (2024) What is Competitive Analysis—and how to do it. Hubspot. 24 April. URL: https://blog.hubspot.com/marketing/competitive-analysis-kit. Accessed 10 June 2024.
- Xero (2024) How to do competitor analysis. URL: https://www.xero.com/nz/guides/how-to-do-competitor-analysis/. Accessed 10 June 2024.

Roy Larke

Key Takeaways: 5Cs Competition

The third part of a 5Cs analysis considers competition within the industry or market sector where the company or brand operates. Michael Porter's Five Forces Model is one of many useful frameworks that can be applied to analyse competition within a sector. The five forces that impact an industry or sector are:

1. **Rivalry among existing competitors:**
   Define who those competitors are and what are their key competitive characteristics
2. **Bargaining Power of Suppliers:**
   Define who the main suppliers are and how they influence the sector
3. **Bargaining Power of Buyers or End Users:**
   Define who the buyers are and how their power influences the sector
4. **Threat of Substitutes:**
   Define what the most likely brands of substitutes are and why, and how they will influence the sector
5. **Threat of new entrants:**
   Define recent new entrants to a sector and note why they are likely to succeed

Competitive Analysis can also consider a sample of key competing brands or companies on the basis of what is provided to customers in terms of a value proposition. In this case, the analysis would:

1. **Consider value proposition**
   A detailed analysis and understanding of the brand's/company's value proposition at a point in time, based on its unique characteristics, other market requirements, company strengths and weaknesses.
2. **Research key competitors**
   Compile a detailed list of direct and indirect competitors within a specifically defined market.
3. **Research common customer choice criteria**
   This can be done through various marketing research techniques
4. **Evaluate each competing brand against the common choice criteria**
   For each criterion, each competing brand can be scored to compare likely current performance.

3.6 COLLABORATOR ANALYSIS

Roy Larke

Learning Objectives

- Apply the use of Collaborators

Marketing Collaborators

No company operates in a vacuum. All companies of all sizes and types rely on numerous collaborating firms, organisations and people to achieve their goals. The need for finance through loans and other debt mechanisms immediately springs to mind, with even small and medium enterprises (SMEs) using banks as collaborators to finance their businesses. Similarly, the majority of businesses nowadays require some form of IT support, for example, to access and run computer services and to develop and run websites and apps. Most businesses also require accounting services.

A full list of collaborators for even a small business would be long and cover many different aspects of the business. For the 5Cs analysis, we are looking specifically at marketing collaborators, and we can define these within three distinct categories:

1. Suppliers
2. Distributors
3. Promotional agents

Suppliers

Many businesses require supplies of some kind. These range from raw materials to suppliers of infrastructure, such as computers or other equipment. Examples of suppliers might include:

- Whittaker's requires supplies of cocoa, sugar and other raw ingredients
- McDonald's requires supplies of raw materials and semi-prepared products, as well as packaging materials.
- Air New Zealand requires supplies of fuel and in-flight meals, as well as planes and everything that goes into a plane, such as entertainment systems and software packages.

Distributors

Distribution is the core of marketing because it involves getting the final product or service to the customer, without which there can be no sale and so no business. Distribution involves the movement of products, both from the source to the point of sale and from the point of sale to the final customer. Companies such as restaurants that sell services still rely on distribution companies to deliver raw materials.

Distribution can be split between upstream logistics, whereby raw materials and other wholesale products are supplied to the company by other businesses, and downstream whereby the final product or service is delivered to the customer. For upstream logistics, the distributor and the supplier are often one and the same. For example, LSG Sky Chef is the supplier and distributor for in-flight meals on Air New Zealand.

As a result, for all companies, the distribution mechanism that gets the final product to service to the customer is a key component of the marketing plan. These become the most important distribution collaborators. For consumer brands, these will mostly be retailers. Defining the retail collaborators for a product or service is important because the type of retailer chosen plays a major part in defining the positioning for a brand:

- Whittaker's brands are sold in supermarkets and other food stores. It also sells premium and limited edition products in places such as airport duty-free stores.
- Cookietime biscuits are sold in supermarkets, but they are also sold through direct mail and online, and in some markets, the brand also runs its own speciality branded stores.
- McDonald's runs its own stores, working with landlords, notably major shopping centres. McDonald's has a few premium stores around the world and
- Air New Zealand sells tickets through its own website, but it also works with travel agents of various kinds, both online and offline.
- Louis Vuitton operates its own stores, but it also works with other premium retailers, such as department stores.

Choosing the correct retailer to work with and fitting the status of the retailer with that of the brand are very important decisions for many brands. Selling through The Warehouse gives a very different brand positioning and different customer segment for a product compared to selling through Farmers, for example. Also, remember that while brands can target particular large retailers, it is the retailer who will decide whether or not to stock the brand and how much profit it expects to make from doing so. The brand can only propose. The retailer decides. In many cases, if the brand does not pay the retailer a fee, the retailer won't stock the brand.

Promotional Agents

Agencies

For MRKTG101, the final marketing collaborators to consider are promotional agents and platforms. While small companies can set up their own simple advertising and promotions, in most cases, larger brands will employ advertising experts to manage various aspects of their promotional strategy. Bigger brands will sometimes use the same agency to cover all their advertising and promotional needs, while others will split different roles (e.g. branding, creative content development, advert distribution and so on) between different agencies, and some will switch agencies more frequently than others.

Source: https://www.waikato.ac.nz/news-opinion/media/2020/university-of-waikato-launches-bold-new-campaign

For its 2020 campaign, for example, the University of Waikato employed Together and Special Group to organise its promotional campaigns. (see details here).

> *One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=883#oembed-1*

Similarly, for a 2021 campaign, Air New Zealand used Shine Communications (see details).

As advertising agencies are in the business of advertising, self-promotion is also common, and it is fairly easy to track down. There are many websites dedicated to advertising the work of advertising agencies (for example, see Stop-press, Campaign Brief or Ads of the World).

Advertising Media Channels & Platforms

The other collaboration factor again relates to distribution—this time, distribution of the ads themselves. There are multiple options for media channels and, as with the choice of retailer, each relates to a different market and different brand positioning, although many brands will distribute their promotions across multiple media channels at any one time. You will study more about ad platforms in Chapter 12.

Common media channels include the following:

Medium	Advantages	Limitations
Broadcast Television	Good mass-market coverage; combines sight, sound and motion	Expensive, complex, time-consuming, and very scattergun
Paper Newspapers	Timeliness, good local market, and broad acceptability.	Short life, declining audience, poor audience attention, scattergun
Postal Direct Mail	Flexible, low cost, and some targeting is possible	Few consumers enjoy receiving junk mail, and email and messaging have essentially made this method obsolete.
Paper Magazines	Speciality interest channels; good audience attention	Expensive, complex, fairly scattergun, unpopular with customers
Radio	Good for local markets; some targeting based on listening preference	Audio only, fleeting exposure; ads are all similar; scattergun
Outdoor/ Billboard	Low cost; gains attention by location	Creatively limited, scattergun
Digital, mobile & social media	High selectivity; low cost; immediacy; interactive and engagement capabilities; cost-effective budgeting; instant data & feedback	Some technical knowledge is required, and it still requires creative content, which is not available in all geographies.

For the brand you are analysing for 5Cs Collaborators, you should:

- List the agency or agencies used to create the campaign
- List the media used for the campaign (which will also correspond to the customer target)

5Cs Collaborators Key Takewaways

Companies use many collaborators to run their business successfully. For marketing purposes we concentrate on three of these:

- Suppliers
- Distributors
- Promotional Agents

3.7 CUSTOMERS AND STP ANALYSIS

Roy Larke

Learning Objectives: 5Cs Customers

- Explain how Customer analysis is achieved through the STP framework.

5Cs: Customers

The fifth and final part of a 5Cs analysis considers the customers that companies and brands target.

5Cs Analysis: Customers

Source: Adapted from Silk, A. (2006) What is marketing? Harvard Business Review Press.

Of course, customers are the most important aspect of any marketing analysis. While the 5Cs framework provides a useful and straightforward way to analyse the macro environment overall, customers are so important to any company that a full understanding of the target customer segment, their attributes and their needs, is of vital importance. Consequently, customer analysis requires a whole separate set of tools and frameworks that we generally refer to as Segmentation, Targeting and Positioning (or STP).

Key Customer Attributes

While a more in-depth analysis is needed to gain a full picture of who a brand's customers are (and, vitally, who they are not), a business should be able to summarise its target market on several simple attributes. The important thing to remember is that the more precise the definition of the customer, the easier it will be to design a good marketing strategy specifically targeting that segment.

For consumer goods, markets can be defined by the following attributes:

Income level

Nothing is more important than income. You should define your customer target based on their annual incomes.

This determines whether your brand should be low-priced or high, which media it should be promoted in, where it should be sold (distribution), and various aspects of the product itself.

High-income consumers may be happy with the same product or service as low-income customers, but as they have the ability to pay more, some brands will specifically design their offerings and marketing to target higher-income groups. Similarly, some brands will consciously try to position their brand as cheaper than rivals' brands.

Remember that income is relative. For any given market, such as the New Zealand market for example, marketers need to know the median annual income. This determines the mid-point for the market. Lower-income consumers will earn less than this, and higher-income consumers will earn more. Stats NZ release regular updates to median income levels. For example, in June 2023, the median income from wages and salaries for New Zealand was $66,196 (Stats NZ, 2023).

Demographic characteristics

You can define your market in broad terms by the following characteristics:

- Age (NB: Age should be defined as narrowly as possible. A market that targets people aged 10-60 can probably be split into multiple markets)
- Gender
- Location
- Household make-up (age of household head, number of people, number of children, life stage, and so on)

Other Socio-economic factors

Other than income, markets can be defined by the type of work they do and, in some cases, their consumption behaviour. Some households spend more or less on some products (e.g. alcohol or meat), while others are less so. Some buy expensive versions of products (e.g. wines), while others buy only cheaper options. This, again, often relates to income.

Socio-Cultural & Behavioural Factors

Source: Wikicommons

Socio-cultural factors relate to culture, interests, beliefs, background and behaviour. Religion, for example, only relates to certain products, but for those products, it can be very important. Anyone can buy and consume products that are certified as halal, but Muslims would not buy and consume any animal products that are not certified as halal. There are travel agencies, for example, that work to ensure that travellers can have an entirely halal experience when travelling (see Have Halal will Travel).

Other interests, hobbies, beliefs and preferences could all relate to the customer's behaviour.

5Cs: Customers Key Takeaways

Customers are the final part of the 5Cs, but in many ways they are the most important part, requiring far more detailed analysis using the STP framework—which comes next in the course.

For simplicity, any business should be able to write a couple of paragraphs or some brief bullet points that define their key target customers based on:

- Income (which is the most important factor)
- Demographics
- Socio-economic factors
- Socio-cultural factors

3.8 PUTTING IT TOGETHER: USING THE 5CS FOR MACROENVIRONMENT ANALYSIS

Roy Larke

Using the 5Cs for Business Analysis

The 5Cs framework for macroenvironment analysis provides a straightforward and structured way to develop a clear snapshot of the situation for a business. It can be used to analyse the business as a whole or for a brand or brand portfolio within a larger business.

1. **Product Description:**
   Briefly describe the brand or business in terms of what it is and the benefits it provides. This will usually relate to the business's mission statement.
2. **Context**:
   Using relevant elements of the PESTE framework, outline the macroenvironment for the industry in which the company/brand operates.
3. **Company:**
   Provide a SWOT analysis for the company/brand.
4. **Competition:**
   Provide a Five Forces analysis for the industry or market sector.
5. **Collaborators:**
   Briefly describe obvious or likely marketing collaborators.
6. **Customers**:
   Briefly describe the types of customers most likely to use the company/brand in the chosen market (for example, New Zealand). Focus on how/why they use the brand, income level, age group, location and lifestyle attributes.

CHAPTER 4: CONSUMER BEHAVIOUR

Learning Objectives

- Understand why consumer behaviour matters
- Describe the stages of the buying process
- Explain different buying processes
- Describe factors influencing consumer decisions
- Recognize the unique nature of B2B purchase decision making

4.1 WHY IT MATTERS: CONSUMER BEHAVIOUR

Why learn about consumer behaviour?

Please welcome a new arrival

At 1:26 a.m. this morning, in the IWK Hospital, a consumer was born. His name is Thomas Henry James. By the time he goes home three days later, some of North America's biggest marketers will be pursuing him with samples, coupons, and assorted freebies. Procter & Gamble hopes its Pampers brand will win the battle for Thom's bottom, but Target has a lower-priced Up & Up contender. To welcome Thom's family, Johnson & Johnson has already sent his mother a sample of its gentle baby wash. Bristol-Myers Squibb Company is sending a free, bulky box of Enfamil baby formula.

Like no generation before, Thom enters a consumer culture surrounded by logos, labels, and messages almost from the moment of birth. As an infant, he may wear Sesame Street diapers and a miniature NBA jersey. Right away, this little boy will begin influencing his parents' purchasing decisions–that's what spitting out spoonfuls of baby food is all about. By the time he is twenty months old, he will start to recognise some of the thousands of brands flashed in front of him each day. Around age four, Thom will begin making decisions about how to spend his own money. At age seven, if he is anything like the typical kid, he will see some forty thousand commercials a year.[1] By the time he is twelve, he will have his own entry in the massive data banks of marketers.

Many forces influence Thom's consumer choices from a very early age. Some of these forces are social: his parents, cousins, and playgroup. Some of these forces are cultural: Finn is an Arkansan and an American. As Thom grows and matures, his age, gender, education, economic status, life stage, and personality all influence his decisions as a consumer. Multiply Thomas by millions of babies born in North America every year, and you have new, increasingly marketing-savvy generations flooding the market.

This is Thom's story. And if you're living in America today, your story probably sounds a lot like his.

You Are the Target and the Hunter

Setting aside the ethics of marketing to children, the fact remains that you are a consumer living in a highly commercialised, modern society. Marketing artefacts are so woven into the fabric of our lives that many people hardly recognise them. Every year, companies and marketing organisations spend billions of dollars focused on one central goal: to influence consumers' purchasing decisions.

As a consumer, hopefully, your growing understanding of marketing is helping you see the world around you a little differently, with more and better information about the forces that are trying to influence you.

1. Wilcox, B.L, Kunkel, D., Cantor, J., Dowrick, P., Linn, S., & Palmer, E. (2004, February 20). Report of the APA task force on advertising and children. American Psychological Association. https://www.apa.org/pi/families/resources/advertising-children.pdf

With your increasing skills as a marketer, you recognise how important it is to understand your customers if you are going to reach them effectively. Part of that is understanding the factors that influence their purchasing decisions. Once you're educated about those influencing factors, they'll be tools you can use to create effective marketing.

4.2 BUYING-PROCESS STAGES

Learning Objectives

- Describe theories of consumer decision-making
- Describe the stages of the buying process

Take a moment to think about the last time you bought something. What factors played a role in your decision to buy? What process did you go through on the way to deciding?

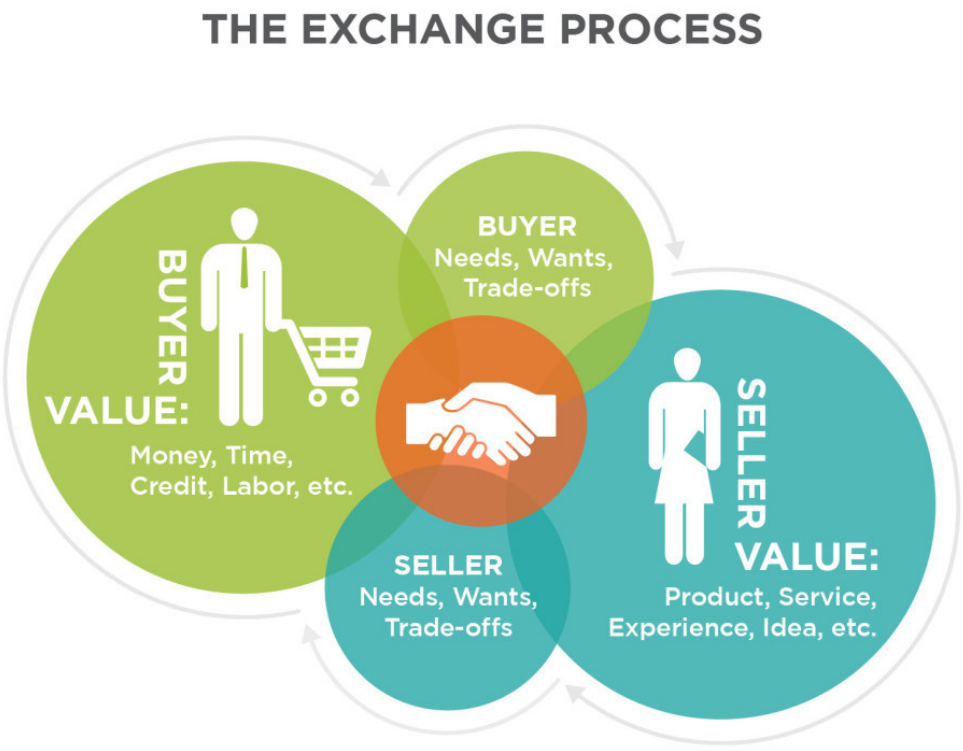
Were you on autopilot, or was it a thoughtful, deliberate decision? What alternatives did you consider? How did you know where to go to make that purchase? And would you buy that same thing again?

Many decisions about what to buy are so routine that we hardly think about them. Other decisions may take days, weeks, or even months to finally get made. Believe it or not, there is a fairly common process that consumers follow when they make decisions about what to buy. Learning about that process is an important first step in unlocking the mystery of consumer behavior—and how to influence it.

Learning Activities

- Reading: The "Black Box" of Consumer Behavior
- Reading: Buying-Process Stages

The relationship between the customer (also called the buyer) and the provider (the seller) forms through a phenomenon called a market exchange. During the exchange process, each party assesses the relative trade-offs they must make to satisfy their respective needs and wants. On the part of the seller, the trade-offs are guided by company policies and objectives. For example, company policy may dictate that it can proceed with an exchange only when the profit margin is 10% or greater. The buyer—the other party in the exchange—also has policies and objectives that guide his or her decisions in an exchange. For individual buyers, these are usually unwritten personal policies and objectives that people make at each stage of a purchasing decision based on the information and options available to them. Even more likely, individuals often are not fully conscious of what prompts them to behave in a particular manner.



Source: Lumen Learning. Consumer Behavior, in Module 7. Lumen Publishing. (2016). Principles of Marketing. Lumen Publishing

Essential Questions About Buyer Behaviour

Buyers are essential partners in the exchange process. Without them, exchanges would stop. Buyers are the focus of successful marketing; their needs and wants are the reason for marketing. Without an understanding of buyer behaviour, it isn't possible to tailor an offering to the demands of potential buyers. When potential buyers are not satisfied,

the exchange does not proceed, and the goals of the marketer are not met. As long as buyers have free choice and competitive offerings from which to choose, they are ultimately in control of the marketplace.

A *market* can be defined as a group of potential buyers with needs and wants and the purchasing power to satisfy them. During the exchange process, the potential buyers vote (usually with their dollars) for the market offering they feel best meets their needs. When marketers understand how buyers make decisions, they can create offerings that will attract buyers. Two key questions a marketer needs to answer related to buyer behaviour are:

- How do potential buyers go about making purchase decisions?
- What factors influence their decision process and in what way?

The answers to these two questions form the basis for the design of a market offering.

When we use the term buyer, we are referring to an individual, group, or organisation that engages in market exchange. In fact, there are differences in the characteristics of these three entities and how they behave in an exchange. Therefore, individuals and groups are traditionally placed in the *consumer* category, while the *organisation* is the second category. This module will first discuss consumer purchasing decisions, followed by business-to-business purchasing decisions.

Opening the Black Box of Consumer Behaviour

Consumer behaviour refers to buyers who are purchasing products for personal, family, or group use. Over time, marketers have turned to the work of behavioural scientists, philosophers, economists, social psychologists, and others to help them understand consumer behaviour. As a result, there are many different theories and models used to explain why consumers act as they do. Are consumers fundamentally active or passive? Rational or emotional? How do they make buying decisions?

The Economic Man Theory

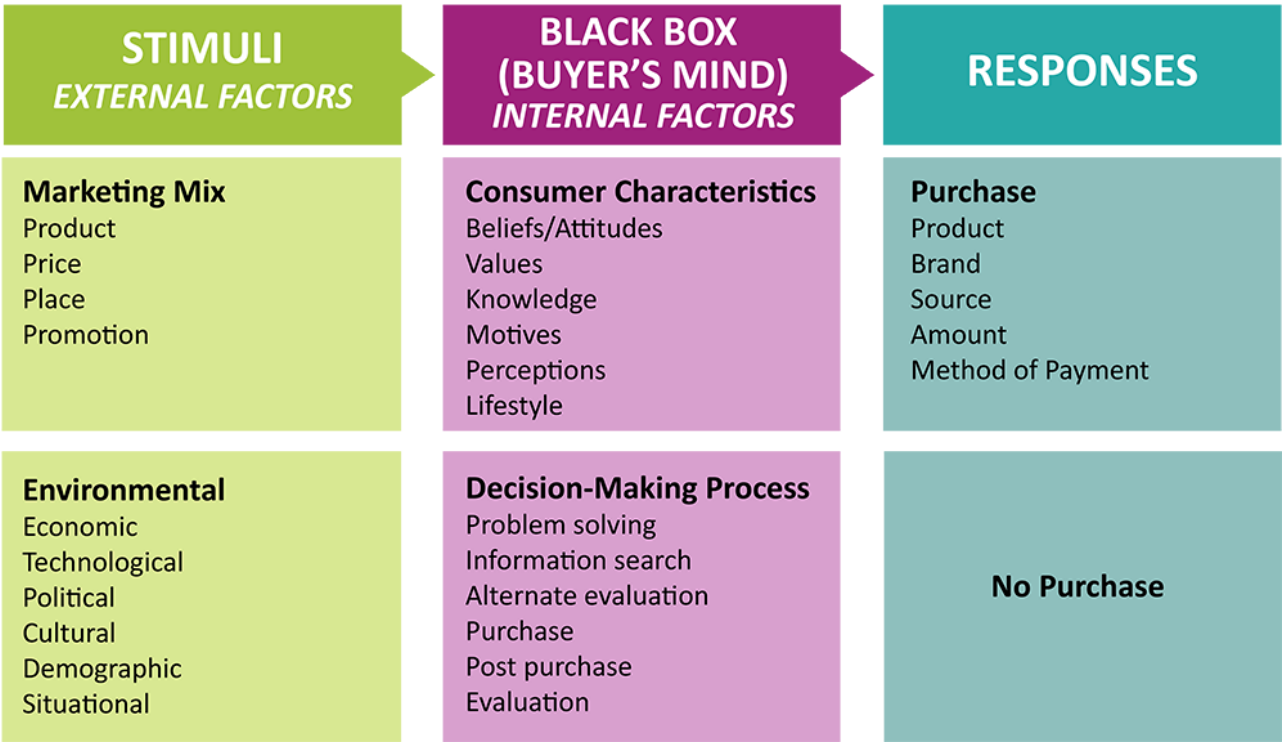
One early theory of consumer decision-making based on principles of economics is known as the economic man. According to the economic man model, consumers are rational and narrowly self-interested. This theory assumes people act selfishly as consumers, always trying to maximise the benefits they derive from the exchange process. (This theory asserts that the seller/producer is also an economic man, who always strives to maximise his profits from an exchange.) The economic man model suggests consumers actively use information about all the available options before deciding to purchase.

Although this model may help explain some consumer decisions, most would agree it is too simplistic to explain every consumer choice. In fact, people often make decisions based on irrational factors as well. For example, some consumers may be heavily influenced by word-of-mouth information from friends or peers. They might choose something because of herd mentality rather than because it provides the greatest objective value. Similarly, many people are averse to change, and so they make suboptimal consumer choices because a familiar choice seems easier or safer.

The Stimulus-Response Model

Another model of consumer behaviour, called the stimulus-response or black box model, focuses on the consumer

as a thinker and problem solver who responds to a range of external and internal factors when deciding whether or not to buy. These factors are shown in Figure 1, below:



Source: Lumen Learning. The "Black Box" of Consumer Behavior, in Module 7. Lumen Publishing. (2016). Principles of Marketing. Lumen Publishing

As illustrated in the figure above, the external stimuli that consumers respond to include the marketing mix and other environmental factors in the market. The marketing mix (the four Ps) represents a set of stimuli that are planned and created by the company. The economic, political, and cultural circumstances of a society supply the environmental stimuli. Together, these factors represent external circumstances that help shape consumer choices.

The internal factors affecting consumer decisions are described as the black box. This box contains a variety of factors that exist inside the person's mind. These include characteristics of the consumer, such as their beliefs, values, motivation, lifestyle, and so forth. The decision-making process is also part of the black box, as consumers come to recognise they have a problem they need to solve and consider how a purchasing decision may solve the problem. As a consumer responds to external stimuli, their black box process choices based on internal factors and determines the consumer's response–whether to purchase or not to purchase.

Like the economic man model, this model also assumes that regardless of what happens inside the black box (the consumer's mind), the consumer's response is a result of a conscious, rational decision process. Many marketers are sceptical of this assumption and think that consumers are often tempted to make irrational or emotional buying decisions. In fact, marketers understand that consumers' irrationality and emotion are often what make them susceptible to marketing stimuli in the first place.

For this reason, consumer purchasing behaviour is considered by many to be a mystery or black box. When people themselves don't fully understand what drives their choices, the exchange process can be unpredictable and difficult for marketers to understand.

Buyer Behaviour as Problem-Solving

A common way for marketers to think about consumer behaviour today is as a set of activities a person goes through in order to solve problems. This problem-solving process is triggered when a consumer identifies some unmet need. For instance, a family consumes all of the milk in the house, or a birthday party is coming up and a gift is needed, or a soccer team is planning an end-of-season picnic. Each buying scenario presents a problem the buyer must solve. These problems can involve two types of needs: physical (such as a need for milk, a birthday gift, or picnic food) or psychological (for example, the need to feel secure, the need to be loved, or the need to have fun).

This problem-solving process also involves needs and wants. A *need* is a basic deficiency for an essential item. You need food, water, air, security, and so forth. A *want* places specific, personal criteria on how a need must be fulfilled. To illustrate, when we are hungry, food is a need. When we have a specific food item in mind, that item is a want. That difference is illustrated by the familiar scenario of standing in front of a full refrigerator and complaining that there is nothing to eat.

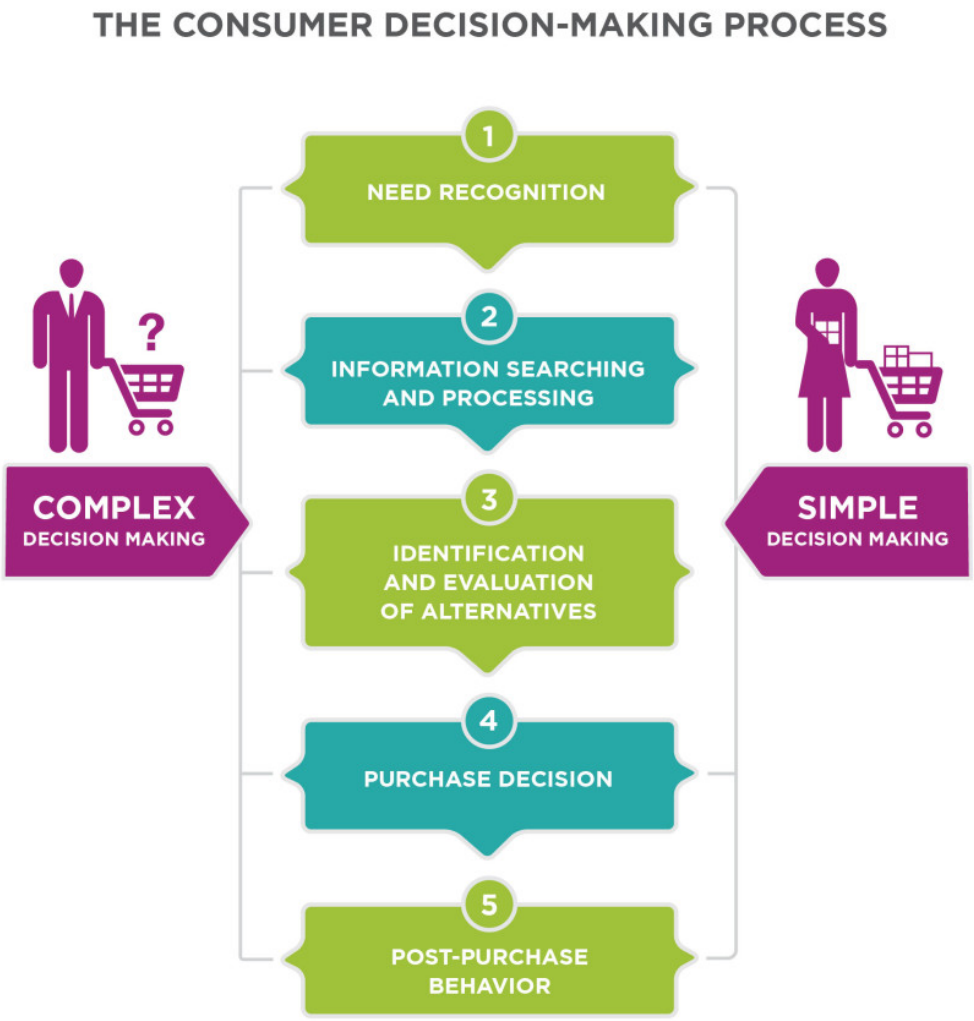
Most of marketing is in the want-fulfilling business, not the need-fulfilling business. Swatch and Timex do not want you to buy just any watch. They want you to want their brands of watches. Likewise, H&M wants you to desire their brand of clothing when you shop for clothes. On the other hand, the Canadian Cancer Society markets to you in the hope that you will feel the *need* to get a checkup, and it doesn't care which doctor you go to. But in the end, marketing is mostly about creating and satisfying *wants*.

This model of consumer behaviour acknowledges that both rational and irrational factors may shape a buyer's purchasing decisions. It also recognises that internal and external factors play a role in the decision process. In fact, the problem-solving model helps us map a consistent process that individuals go through as they make buying decisions. When marketers understand this process and the factors that influence it, they can take action to influence buyer perceptions and behaviour at various stages of the process.

The next reading will discuss the stages of the decision-making process in greater detail.

The Consumer Decision Process

Figure 1 outlines the process a consumer goes through in making a purchase decision. Once the process is started, a potential buyer can withdraw at any stage before making the actual purchase. This six-stage process represents the steps people undergo when they make a conscious effort to learn about the options and select a product–the first time they purchase a product, for instance, or when buying high-priced, long-lasting items they don't purchase frequently. This is called *complex decision-making*.



Source: Lumen Learning. The Consumer Decision Process, in Module 7. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-buying-process-stages-2/

For many products, the purchasing behaviour is routine: you notice a need and you satisfy that need according to your habit of repurchasing the same brand, the cheapest brand or the most convenient alternative, depending on your personal assessment of trade-offs and value. In these situations, you have learned from your past experiences what will best satisfy your need, so you can bypass the second and third stages of the process. This is called *simple decision-making*. However, if something changes appreciably (price, product, availability, services), then you may re-enter the full decision process and consider alternative brands.

The following section discusses each step of the consumer decision-making process.

Need Recognition

The first step of the consumer decision process is recognising that there is a problem–or unmet need–and that this need warrants some action. Whether we act to resolve a particular problem depends upon two factors: (1) the magnitude of the difference between what we have and what we need, and (2) the importance of the problem. A man may desire a new Lexus and own a five-year-old Ford Focus. The discrepancy may be fairly large but relatively unimportant compared to the other problems he faces. Conversely, a woman may own a two-year-old car that is running well, but for various reasons, she considers it extremely important to purchase another car this year. Consumers do not move on to the next step until they have confirmed that their specific needs are important enough to act on.

Part of need recognition is defining the problem in a way that allows the consumer to take the next step toward finding a solution. In many cases, problem recognition and problem definition occur simultaneously: a consumer runs out of toothpaste, for instance. In other cases, these are separate tasks. Consider a scenario in which you injure your knee. You may know that your knee hurts, and you can't walk very well, but you need to define the problem further before you can take action: Do you need a good night's sleep? A brace? Pain medication? Physical therapy? Surgery? All of these things? As a consumer, you will be able to begin solving your problem once it is adequately defined.

Marketers get involved in the need recognition stage at three points:

1. Knowing what problems consumers are facing, so they can develop a marketing mix to address these problems
2. Activating problem recognition, to trigger the start of the purchasing process
3. Shaping how consumers define the need or problem, to influence their wants as they look for a solution

Marketing interactions through ads, websites, salespeople, and any number of other activities create opportunities for marketers to communicate with consumers and become engaged in need recognition. Listening to customers through social media or the customer support team provides insight into the ways consumers perceive the problems they face. A public service announcement espousing the dangers of cigarette smoking helps trigger a sense of needing to do something about cancer prevention. Advertising weekend and evening shopping hours triggers awareness of the problem of limited weekday shopping opportunities for busy working parents. Once a young man recognises that he needs a new coat, marketing tries to influence his choices: Should it be a trendy, bargain-priced jacket from Old Navy or the pricey North Face coat he can wear snowboarding (assuming he can scrape together money for a lift pass after buying the coat). In each of these scenarios, marketing plays an active role in facilitating need recognition.

Information Search

After recognising a need, the prospective consumer may seek information to help identify and evaluate alternative products, services, experiences, and outlets that will meet that need. Information may come from any number of

sources: family and friends, search engines, Yelp reviews, personal observation, *Consumer Reports*, salespeople, product samples, and so forth. Which sources are most important depends on the individual and the type of purchase he or she is considering.

The promotion element of the marketing mix should provide information to assist consumers in the decision process. When marketers understand which information sources their target consumers turn to during the search process, they can develop a promotion strategy and tactics that put their offerings and message into the search path. For instance, teen boys rely heavily on peer networks to know what's interesting, cool, and desirable. A social media strategy is essential for virtually any product—video games, fashion, gadgets, sports gear, music, and on—targeting these consumers.

In some cases, consumers already have the information they need based on past purchasing and consumption experience–for better or for worse. Good experiences reinforce customer loyalty, while bad experiences destroy opportunities for repeat purchases. For instance, a consumer who needs new tires may look for sales in the local newspaper or ask friends for a recommendation. If she has bought tires before and had a good experience, she may go to the same dealer and buy the same brand.

The information-search process can also identify new needs. As a tired shopper looks for information, she may decide that the tires are not the real problem, but instead she needs a new car. At this point, her newly perceived need may trigger a new information search.

Information search involves both mental and physical activities that consumers must perform in order to make decisions and solve their problems through the marketplace. As anyone who has purchased a car, computer, or pet knows, it takes time, energy, and money to achieve a satisfactory outcome. Often, it means foregoing more desirable activities. Eventually, most consumers learn that the benefits of information search can outweigh the costs, particularly for bigger-ticket purchases. A thorough information search may save money, improve the quality of selection, or reduce risks.

Evaluation of Alternatives

As a consumer finds and processes information about the problem she is trying to solve, she identifies the alternative products, services, and outlets that are viable options. The next step is to evaluate these alternatives and make a choice, assuming a choice is possible that meets the consumer's financial and psychological requirements. Evaluation criteria vary from consumer to consumer and from purchase to purchase, just as the needs and information sources vary. One consumer may consider price most important, while another puts more weight on quality or convenience.

The information search helps inform consumers about the criteria they might consider as they evaluate options and make a final selection. For any given purchasing decision, each consumer develops a set of criteria–often only a mental list–along with the relative importance of each quality in their final selection. This evaluation process may be very systematic and comprehensive for some people and purchases. Some people find the selection process difficult or frustrating, and so they cope with their discomfort by keeping the number of alternatives to a minimum or by making an impulse purchase at the last moment. Note that the selection and evaluation phases of consumer problem solving are closely related and often happen simultaneously.

Consider a situation in which you are buying a new vacuum cleaner. During your information search process, you identified five leading models in online reviews, as well as a set of evaluation criteria that are most important to you: 1) price, 2) suction power, 3) warranty, 4) weight, 5) noise level, and 6) ease of using attachments. After visiting Lowes and Home Depot to check out all the options in person, you're torn between two models you short-listed. Finally, you make the agonising choice, and the salesperson heads to the warehouse to get one for you. He returns with bad news: The vacuum cleaner is out of stock, but a new shipment is expected in three days. Strangely relieved,

you take that as a sign to go for the other model, which happens to be in stock. Although convenience wasn't on your original list of selection criteria, you need the vacuum cleaner before the party you're having the next day. You pick the number-two choice and never look back.

From the marketer's perspective, understanding your target consumer's evaluation criteria is critical. You need to demonstrate these qualities in order to be short-listed in the selection set. Often these qualities make the difference in your offering being selected over competitors'. In the end, selection remains something of an unpredictable black box because people think differently, and the circumstances for any given purchasing situation are unique to the person, the product, and the problem is solved.

The Purchase Decision

After much searching and evaluating (or perhaps very little), consumers at some point have to decide whether they are going to buy. Anything marketers can do to simplify purchasing will be attractive to buyers. For example, in advertising, marketers might suggest the best size of product for a particular use or the right wine to drink with a particular food. Sometimes, several decision situations can be combined and marketed as one package. For example, travel agents often package travel tours, and stores that sell appliances try to sell them with add-on warranties.

To do a better job of marketing at this stage of the buying process, a seller needs to have answers to questions about consumers' shopping behaviour. Those answers will increase the likelihood of closing the sale and maximising value at the moment of purchase. Useful questions to ask include the following:

- How much effort is the consumer willing to spend in shopping for the product?
- What factors influence when the consumer will actually make the purchase?
- Are there any conditions that would prohibit or delay the purchase?

Marketers should look for opportunities to influence things in their favour at the point of purchase. Product pricing, labelling, and packaging can be hugely influential at this stage of the process. Product sampling, coupons, and rebates may also give an extra incentive to buy. Personal selling, product display, convenience, and ease of finding the product may also lead the consumer to make one choice over another. Actually determining how a consumer goes through the decision-making process is a difficult research task, in part because it can vary so much from consumer to consumer. The key for marketers is to be aware of the influencing factors and how to shape them to their advantage.

Postpurchase Behavior

All the behaviour determinants and the steps of the buying process up to this point take place before or during the time a purchase is made. However, a consumer's feelings and evaluations after the sale are also significant to a marketer, because they can influence repeat sales and what the customer tells others about the product or brand.

Marketing is all about keeping the customer happy at every stage of the decision-making process, including post-purchase. It is normal for consumers to experience some post-purchase anxiety after any significant or non-routine purchase. This anxiety reflects a phenomenon called *cognitive dissonance*. According to this theory, people strive for consistency among their cognitions (knowledge, attitudes, beliefs, and values). When there are inconsistencies, dissonance arises, which people try to eliminate.

In some cases, the consumer decides to buy a particular brand already aware of dissonant elements or things that are inconsistent with their internal criteria. A common example is price: a consumer falls in love with every aspect of a product, but it costs more money than he intended to spend. His cognitive dissonance is whether to spend the extra

money for a product he loves or else stick with a second-best product that fits the budget. In other cases, dissonance is aroused by information received after the purchase. For instance, a disturbing report about sweatshop labour comes out days after you purchase a pair of athletic shoes from the company involved.

Marketers may take specific steps to reduce post-purchase dissonance. One obvious way is to help ensure delivery of a quality solution that will satisfy customers. Another step is to develop advertising and new-customer communications that highlight the product's many positive attributes or confirm its popularity. Providing personal reinforcement has proven effective with big-ticket items such as automobiles and major appliances. Salespeople in these areas may send cards or even make personal calls to reassure customers about their purchase.

4.3 LOW-INVOLVEMENT VS. HIGH-INVOLVEMENT DECISIONS

Learning Objectives

Explain the different buying processes for low-involvement and high-involvement decisions

In our discussion of the consumer decision process, we noted that not all purchasing decisions go through all six stages of the process. Some consumer decisions are quick and easy, requiring little if any focused attention. Others can be long, involved, and tough.

The next section will explore each of these situations in more detail, as we discuss how the buying process differs between *low-involvement products* and *high-involvement products*.

Learning Activities

- Reading: Low-Involvement vs. High-Involvement Decisions

How Involved Are You?

You're at the grocery store, looking at the dog food selection. How long does it take you to choose a product, buy it, and get out the door?

Change of scene.

You're on a car sales lot, looking at the selection of vehicles for sale. How long does it take you to choose a product, buy it, and drive off the lot?

For most people, these scenarios are worlds apart in terms of the time, effort, emotional, and psychological work it takes to make a purchasing decision.

When a purchasing decision involves a low-cost item that is frequently bought—such as bread or toothpaste—the buying process is typically quick and routinised. Buying a new car is quite different. The extent to which a decision is considered complex or simple depends on the following:

Dog Food Selection. Authored by: Christopher. Located at: https://www.flickr.com/photos/colorblindpicaso/2676714959/. License: CC BY-NC: Attribution-NonCommercial

- Whether the decision is novel or routine
- The extent of the customers' involvement with the decision

High-involvement decisions are those that are important to the buyer. These decisions are closely tied to the consumer's ego and self-image. They also involve some risks to the consumer. This may include financial risk (highly priced items), social risk (products that are important to the peer group), or psychological risk (the wrong decision may cause the consumer concern and anxiety). In making these decisions, consumers generally feel it is worth the time and energy needed to do research and consider solution alternatives carefully. The full, six-stage, complex process of consumer decision-making is more likely to happen with high-involvement product purchases. In these cases, a buyer gathers extensive information from multiple sources, evaluates many alternatives, and invests substantial effort in making the best decision.

Low-involvement decisions are more straightforward, require little risk, are repetitive, and often lead to a habit. In effect, these purchases are not very important to the consumer. Financial, social, and psychological risks are not nearly as great. In these cases, it may not be worth the consumer's time and effort to search for exhaustive information about different brands or to consider a wide range of alternatives. A low-involvement purchase typically involves a simplified decision-making process. In these situations, the buyer typically gathers little to no information, and any evaluation of alternatives is relatively straightforward. Consumers are diligent enough to get a product they want, but they generally spend only as much time and effort as necessary.

There are general patterns about what constitutes a high-involvement decision (buying cars, homes, engagement rings, pets, computers, etc.) versus a low-involvement decision (buying bread, chewing gum, toothpaste, dishwasher

detergent, trash bags, etc.). However, the real determinant is the individual consumer and how involved they choose to be in solving the problem or need they have identified.

Marketing Considerations About Consumer Involvement

Let's imagine another couple of scenarios.

Situation 1: You have just moved in with roommates for the first time. Excitement about your new independence temporarily dims when you scour the kitchen and find just three forks, four spoons, and zero table knives. On your way to Walmart, you stop off at Potter's House Thrift, and you are delighted to pay less than $4 for an unmatched service for eight.

Situation 2: You are a soon-to-be bride. You have spent days looking through magazines, browsing online, and visiting shops to find the perfect silverware to match the dishes on your wedding registry. It gives you pause, though, when you learn that your dream flatware costs $98 per place setting. Still, you rationalise that you only get married once—or at least that's your plan.

In each of these situations, the consumer is making a purchasing decision about the same product: silverware. However, the level of involvement in each situation varies significantly. The new roommate wants to spend as little time and money as possible to get a product that will get the job done. The soon-to-be bride is pinning her future happiness on selecting the right pattern. Who is more involved?

Now, suppose you are a marketer trying to promote the flatware designs your company makes. Which of these consumers will pay any attention to the full-page ads you have placed in seven popular women's magazines? Which of these consumers will click on the paid search listing Google placed in their search results for new silverware patterns? Which one is most likely to come to a store to see the beautiful sheen of your new product line and feel its perfectly balanced weight with her fingertips?

As a marketer, you should recognise high-involvement versus low-involvement consumers of your products and strategise accordingly. Your target segments can include a mix of both. When you recognise the differences in how they make decisions, you can create a marketing mix designed to impact each type of consumer. For customers who prefer minimal involvement, your marketing mix can simplify their buying process. For the highly involved consumer, you can provide the information and validation they seek.

4.4 FACTORS INFLUENCING CONSUMER DECISIONS

Learning Objectives

- Describe situational factors that influence what and when consumers buy:
  - Buying situation
  - Market offerings
- Describe personal factors that influence what and when consumers buy:
  - Demographics (age, economic status, etc.)
  - Life stage
  - Lifestyle
- Describe psychological factors that influence what and when consumers buy:
  - Motivation and Maslow's Hierarchy of Needs as it pertains to marketing
  - Perception, learning, belief
- Describe social factors that influence what and when consumers buy
  - Culture, subculture, social class, family, reference groups
  - Culture and marketing in different countries

The consumer decision process helps you understand the steps people go through when they are deciding whether and what to buy. Many different factors can influence the outcomes of purchasing decisions.

Some of these factors are specific to the buying situation: what exactly you are buying and for what occasion. Other factors are specific to each person: an individual's background, preferences, personality, motivations, and economic status. Because no two people are exactly alike, it is difficult to predict how the tangled web of influencing factors will ultimately shape a final purchasing decision.

For marketers, an understanding of these factors provides a more complete view of the customer's mindset. As you learn more about what influences decisions for your particular target segment, product category, brand, and competitive set, you can use these influencing factors to your advantage. What you say to customers, the words you use, the people who say them, the images they evoke—all of these things can link back to that web of influencing factors at work in a purchaser's mind. Great marketing uses those connections powerfully and effectively to win the minds and hearts of customers.

Learning Activities

- Reading: Situational Factors
- Reading: Personal Factors
- Reading: Psychological Factors
- Video: Consumer Attitudes and Heinz Baked Beans
- Reading: Social Factors

What, Exactly, Influences a Purchasing Decision?

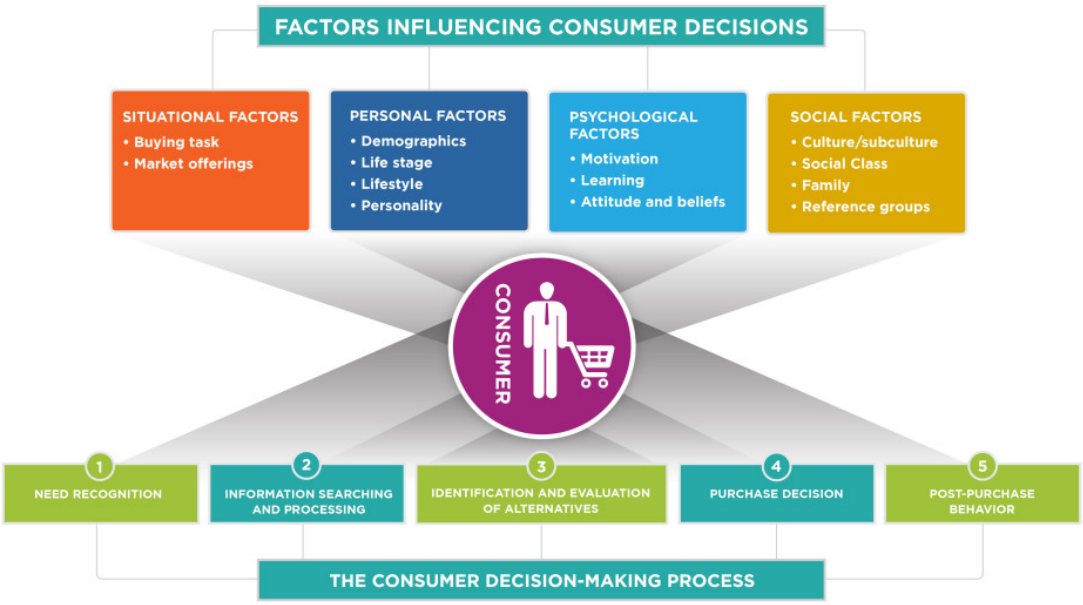
While the decision-making process itself appears quite standardised, no two people make a decision in exactly the same way. People have many beliefs and behavioural tendencies—some controllable, some beyond our control. How all these factors interact with each other ensures that each of us is unique in our consumer actions and choices.

Although it isn't feasible for marketers to react to the complex, individual profiles of every single consumer, it is possible to identify factors that tend to influence most consumers in predictable ways.

The factors that influence the consumer problem-solving process are many and complex. For example, families with young children tend to make different dining-out choices than single and married people with no children. A consumer with extensive prior purchasing experience in a product category might approach the decision differently from someone with no experience. As marketers gain a better understanding of these influencing factors, they can draw more accurate conclusions about consumer behaviour.

We can group these influencing factors into four sets, illustrated in the figure below. Each of these factors will be discussed in greater detail in the next four readings:

- **Situational Factors** pertain to the consumer's level of involvement in a buying task and the available market offerings
- **Personal Factors** are individual characteristics and traits such as age, life stage, economic situation, and personality
- **Psychological Factors** relate to the consumer's motivation, learning, socialisation, attitudes, and beliefs
- **Social Factors** pertain to the influence of culture, social class, family, and reference groups



Source: Lumen Learning. Influences on Consumer Decisions, in Module 7. Lumen Publishing. (2016). Principles of Marketing. Lumen Publishing

Buying Task

The buying task refers to the consumer's approach to solving a particular problem and how much effort it requires. The level of consumer involvement is an important part of the buying task: whether the buyer faces a high-involvement decision with lots of associated risk and ego involved, versus a low-involvement decision with little risk or ego on the line.

Product or brand familiarity is another related dimension of the buying task. When a consumer has purchased a similar product many times in the past, the decision-making is likely to be simple, regardless of whether it is a high- or low-involvement decision. Suppose a consumer initially bought a product after much care and involvement, was satisfied, and continued to buy the product. For the buyer, this is still a high-involvement decision, but now it's simpler to make. The customer's careful consideration of a product and the subsequent satisfaction have produced brand loyalty, which resulted from involvement in the product decision.

Once a customer is brand loyal, a simple decision-making process is all that is required for subsequent purchases. The consumer now buys the product through habit, which means making a decision without additional information or needing to evaluate alternatives. Selling to and satisfying brand-loyal customers can be a great position for marketers, although it's important not to rest on one's laurels and take them for granted. New competitors are always looking for ways to break existing brand-loyal habits and lure the consumer into an enticing new product experience.

Market Offerings

The available market offerings are another relevant set of situational influences on consumer problem-solving. The more extensive the product and brand choices available to the consumer, the more complex the purchase decision process is likely to be. And the more limited the market offerings are, the simpler the purchase decision process is likely to be.

For example, if you have already purchased or are considering purchasing a smartphone, you know that there are multiple brands to choose from—Samsung Galaxy, OnePlus, Google Pixel, Apple iPhone, and Huawei, to name a few. Each manufacturer sells several models that differ in various features–design, screen size, memory, speed, camera quality, and so on. What criteria are important to you? Is purchasing a smartphone an easy decision? If a consumer has a need that can be met by only one product or one outlet in the relevant market, the decision is relatively simple: Either buy the product or let the need go unmet.

This is not ideal from the customer's point of view, but it does happen. For example, suppose you are a student on a campus in a small town many miles from another marketplace. Your campus and town have only one bookstore. You need a textbook for class tomorrow; only one particular book will do, and only that bookstore carries it. Amazon and other online retailers have the book at a lower price, but they can't get the book to you overnight, so you're stuck. In this case, the limitation on alternative market offerings has a clear influence on your purchase behaviour.

As you saw in the smartphone example, when the extent of market offerings increases, the complexity of the problem-solving process and the consumers' need for information also increase. A wider selection of market offerings is better for customers, because it allows them to tailor their purchases to their specific needs. However, lots of choices may also confuse and frustrate the consumer, leading to suboptimal choices.

Marketers can find opportunities in either scenario—a crowded competitive set and a complex decision for the

consumer, or a narrow competitive set with limited choices and a simpler decision for the consumer. In a crowded field, the marketer's challenge is to make compelling offerings and useful information prominent in the consumer's information-gathering and evaluation processes. In a narrow field with limited choices, effective marketing can help the consumer feel good about their choice. A good experience with the product during and after purchase is a recipe for brand loyalty.

In addition to situational factors, individual traits and characteristics also play a role in shaping purchasing decisions. These include things like demographics, life stage, lifestyle, and personality.

Demographics

Demographics are an important set of factors that marketers should not overlook when trying to understand and respond to consumers. Demographics include variables such as age, gender, income level, educational attainment, and marital status. Each of these can have a strong influence on consumer behaviour.

Historically, marketers have made much of generational differences, focusing on the best ways of reaching different cohorts such as Baby Boomers, Generation Xers, Millennials, and so on. Many of the distinctions between these groups are related to the groups' ages and related needs at any given point. For example, as Baby Boomers head into their retirement years, marketers target them with messages about prescription drugs and other health care products, insurance, home and financial security—all issues of growing concern for people as they age. Generational differences can also be factors in the ways people use media and where they go for information to inform their consumer choices. A 2013 study found that Millennial moms (born 1981–1997) were online "followers" of 22.5 brands on average, while Generation X moms (born 1965–1980) followed just 13.7 brands online.[1] Understanding differences like these can be essential to developing the right marketing mix whenever age is an identifying factor in market segmentation.

Gender is also a defining characteristic for many consumers, as is the marketing that targets them. You have only to watch TV ads during an NFL game and the TV ads during the women-oriented talk show *The View* to see how the different needs and wants of men and women are translated into marketing messages and imagery.

DeBeers Limited, which has commanded an 80 per cent share of the market for diamonds used in engagement rings, employs a consumer demographic profile in the development of its promotional programs. Their primary target market for engagement rings is single women and single men aged 18 to 24. The company combined this profile with some additional lifestyle-related factors to develop a successful promotional program.

The demographic marker of economic status is another strong influencer in consumer decisions. Not surprisingly, people in different income brackets tend to buy different types of products, shop in very different ways, and look for different qualities. Many designer clothing shops, for example, target higher-income shoppers. Meanwhile, a retail chain like Walmart sticks closely to its lowest prices positioning in order to maintain its appeal for middle- and lower-income shoppers.

A well-respected source of information about generational research and generational differences is the Pew Research Centre. Key differences between the generations are covered in detail (the charts and graphs are a good example of how to present data well); those differences include race, ethnicity, marriage rates, and religious and partisan affiliations.

1. Holland, Stephanie. "Marketing to Women Quick Facts." *She-Conomy"*, 15 Sept. 2016, http://she-conomy.com/report/marketing-to-women-quick-facts.

More from Pew Research Center: Millennial life: How young adulthood today compares with prior generations

By Kristen Bialek and Richard Fry | February 14, 2019

Life Stage

The concept of life stage is linked to demographics: consumer behaviour is tied to the significant life events and circumstances people are experiencing at any given moment. Moving out of your parents' home, going to college, getting married, buying a house, starting a family, sending children to college, and retiring: all of these are life events that shape consumer attitudes, behaviours, and decisions.

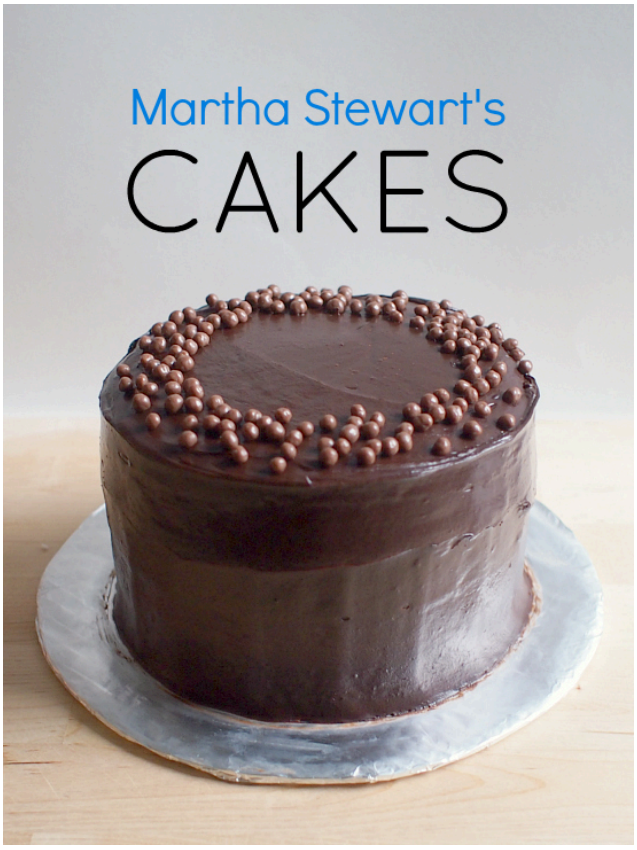
Life stage has a big enough impact on consumer decisions that many marketing organisations develop proprietary segmentation schemas to help them better understand this dimension of the consumer experience and better target products and services to individual needs. A representative example is the set of lifestyle segments developed by the consumer data company Experian. Experian's life stage segments include Independent Youth, Young Families, Maturing Couples & Families, Elderly Singles, and six other segments it uses to encompass the entire U.S. adult population.

Consumers experience life stage marketing when offers relevant to their life events appear in their inboxes, mailboxes, and even in the checkout line. Producers and sellers of baby products like Procter & Gamble, Johnson & Johnson, and Shoppers Drug Mart send a barrage of product samples, coupons, and other promotions to expecting and new parents. Families of young children are invited to sign their kids up for LEGO's free quarterly magazine and become part of the Toys ' R ' Us Rewards program for frequent shoppers. Financial services companies target new college students and their parents with credit card offers and banking plans. Home Depot, Lowe's, and even the Canadian Postal Service send promotional welcome packets to new homeowners, hoping to win their business as they settle into a new residence.

Lifestyle

One of the newer and increasingly important sets of factors that are being used to understand consumer behaviour is lifestyle. In this context, "lifestyle" refers to the potential customer's pattern or being or living in the world combined with their psychographics (a set of attitudes, opinions, aspirations, and interests). The variables determining lifestyle are wide-ranging:

- Activities and interests (e.g., hunter, fitness enthusiast, fashionista, foodie, lawyer, musician, pet lover, farmer, traveller, reader, homebody, crafter, etc.)
- Opinions about oneself and the world (e.g., politically conservative, feminist, activist, entrepreneur, independent thinker, do-gooder, early adopter, technophobe, populist, explorer, etc.)



Please include this in the chapter: Martha Stewart's Cakes. Authored by: Sylvia Chan. Located at: https://www.flickr.com/photos/abakedcreation/10122941096/. License: CC BY-NC-ND: Attribution-NonCommercial-NoDerivatives

Lifestyle variables reveal what consumers care about, how they spend their time, what they're likely to spend money on, and how they view themselves. Inevitably, these individual characteristics impact consumer decisions—and brand preference in particular. The criteria that determine lifestyle are often things consumers feel passionately about. When a consumer identifies your brand as consistent with his interests, attitudes and self-identity, it paves the way for building a long and loyal customer relationship. It is the multifaceted aspect of lifestyle research that makes it so useful in consumer analysis. A prominent lifestyle researcher, Joseph T. Plummer, summarises the concept as follows:

> . . . lifestyle patterns combines the virtues of demographics with the richness and dimensionality of psychological characteristics . . . Lifestyle is used to segment the marketplace because it provides the broad, everyday view of consumers lifestyle segmentation and can generate identifiable whole persons rather than isolated fragments.

Marketers are often drawn to lifestyle as a segmentation schema because it helps reveal a deeper, more vivid picture of consumers and their motivations. As marketers strive to establish strong emotional connections between the brands they promote and the consumers they serve, they are selling more than just product features. They are selling a sensibility, an attitude, a set of values they hope will resonate strongly with the target segments they want to reach.

Oprah Winfrey and Martha Stewart are interesting comparative examples of extremely successful marketing that uses a lifestyle orientation to attract and keep devoted consumers. Both brand empires are built around strong, successful, self-made women, and they both target women as their primary consumers. Oprah Winfrey's brand is designed to appeal to socially conscious women who are seekers, readers, idealists, self-help enthusiasts, working women, and those striving for balance and self-fulfilment. Martha Stewart's brand, on the other hand, is carefully curated to appeal to women with a passion for fine food, design, beautiful surroundings, cultural experiences, arts and crafts, and the creative act of doing it yourself. The strong lifestyle-oriented identity of each brand makes it relatively easy for individual consumers to recognise which one is most consistent with their own identity and values.

Personality

Personality is used to summarise all the traits of a person that make them unique. No two people have the same personalities, but several attempts have been made to classify people with similar traits. Perhaps the best-known person-

ality types are those proposed by Carl Jung, which are variations on the work of Jung's teacher, Sigmund Freud. His personality categories are *introvert* and *extrovert*. The introvert is described as defensive, inner-directed, and withdrawn from others. The extrovert is outgoing, other-directed, and assertive. Over the years, several other, more elaborate classifications have also been devised.

Personality traits may also include characteristics linked to the ways people view themselves and calibrate their behaviour in the world: for example, sincerity, self-confidence, empathy, self-reliance, adaptability, and aggression.

Various personality types are likely to respond differently to different market offerings. For example, an extrovert may enjoy the shopping experience and rely more on personal observation to secure information. In this case, in-store promotion becomes an important communication tool. Knowing the basic personality traits of target customers can be valuable information for managers in designing the marketing mix. Marketers have found it challenging to apply personality in many cases, primarily because it is not easy to measure personality traits. Personality tests are usually lengthy and complex; many were developed to identify individuals with problems that require medical attention. Translating these tools into useful marketing data is no small feat; as a result, marketers have turned to lifestyle analysis instead.

Where personality does come into play more prominently is in the notion of *brand personality*. Brand managers strive to cultivate strong, distinctive, recognisable personalities for the brands they promote. The personality gives dimension to the brand, opening the door for consumers to connect with the brand emotionally and identify its personality as consistent with their own values and self-identity. In this case, there is a blurry line between the use of lifestyle and personality to understand and appeal to target customers. If you run down a list of super-brands, though, it is easy to recognise the power of brand personality at work: Apple, Coca-Cola, Walt Disney, Star Wars, Google, and Nike, to name a few.

Consumer Decisions and the Workings of the Psyche

When we talk about psychological factors that influence consumer decisions, we are referring to the workings of the mind or psyche: motivation, learning and socialisation, attitudes and beliefs.

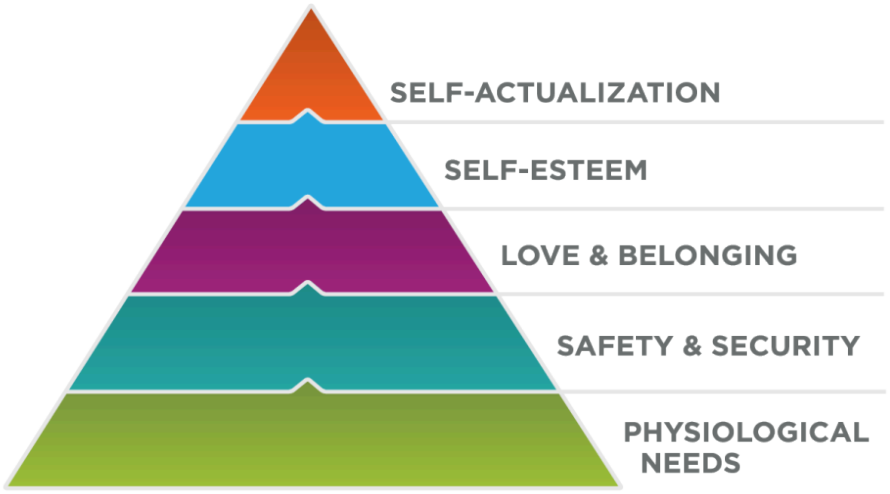
Motivation

A motive is the inner drive or pressure to take action to satisfy a need. A highly motivated person is a goal-oriented individual. Whether goals are positive or negative, some individuals tend to have a high level of goal orientation, while others tend to have a lower level of goal orientation. People may display different levels of motivation in different aspects of their lives. For example, a high school junior may be flunking trigonometry (low motivation) while achieving champion performance levels on a video game such as Grand Theft Auto (high motivation).

For any consumer purchasing decision to happen, the need must be aroused to a high enough level that it serves as a motive. At any given time, a person has a variety of needs that are not of sufficient urgency to generate the motivation to act. At the same time, there are others for which he is highly motivated to act. The forces that create a sense of urgency and motivation may be internal (people get hungry), environmental (you see an ad for a Big Mac), or psychological (thinking about food makes you hungry).

For motivation to be useful in marketing practice, it is helpful for marketing managers to understand how motivation plays into a specific purchasing situation—what triggers consumers to set goals, take action, and solve their need-based problems.

Motivation starts with an unmet need, as does all consumer problem-solving. One theory about individual motivation is the work of A. H. Maslow, known as *the hierarchy of needs*. Maslow developed a model that lays out five different levels of human needs. These needs relate to one another in a "need hierarchy," with basic survival-oriented needs at the lower levels of the hierarchy, building up to higher emotional needs associated with love, self-esteem, and self-fulfilment. This hierarchy is shown in the figure below:



MASLOW'S HIERARCHY OF NEEDS

Source: Lumen Learning. Psychological Factors, in Module 7. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/outcome-maslows-hierarchy-of-needs/

Physiological *needs* are at the first level of Maslow's hierarchy: hunger, thirst, and other basic drives. All living beings, regardless of their level of maturity, possess physiological needs. Physiological needs are omnipresent and recur throughout nature.

Safety *and security* are second in Maslow's hierarchy. Safety and security needs imply a continued fulfilment of physiological needs, as well as the absence of the threat of physical harm. Safety and security encompass both physical and financial security, because financial security is linked to a person's ability to have her physiological needs met. Health, physical well-being, and protection from accidents are also associated with this level of need. This is considered an extension of the more basic needs.

Love and belonging are third in Maslow's hierarchy of needs. Love encompasses the needs for belonging, friendship, human intimacy, and family. They involve a person's interaction with others and the need to feel accepted by social groups, large or small.

Self-esteem is the fourth level. Self-esteem includes the need to feel good about oneself, to be respected and valued by others, and to have a positive self-image.

Self-actualisation is the fifth and highest level in Maslow's needs hierarchy. Also described as "self-fulfilment," this is the need humans feel to reach their full potential and to accomplish all that they can with their talents and abilities. Different people may express this need in very different ways: for one person, self-actualisation might involve musical or artistic pursuits, for another, it's parenting, and for a third, the focus might be athletics. At different points in their lives, individuals may express this need through different pursuits.

In his work, Maslow asserts that these five levels of needs operate on an unconscious level. In other words, people may not even be aware that they are concentrating on one particular level of need or multiple needs. Maslow's theory suggests that lower levels of need must be met before an individual can focus on higher-level needs. At the same time, a person may experience several different needs simultaneously. How an individual is motivated to act depends on the importance of each need.

When we think about Maslow's needs hierarchy in the context of marketing and segmentation, we might use the hierarchy to help identify a common level of needs for a given segment. Effective and powerful marketing may operate at any level of Maslow's hierarchy. Consider the following examples:

- In-N-Out Burger's freeway billboards featuring a giant, 3-D cheeseburger (physiological needs)
- Procter & Gamble's "Thank You Mom" ad campaign featuring dedicated parents of Olympic athletes and their loving relationships (love & belonging)
- Nike's "Play New" commercial encourages people to try new things and to never give up on improving themselves (self-actualisation), shown in the following video

https://www.youtube.com/watch?v=BUvEEVq4woU&ab_channel=Nike

Learning and Socialisation

In the context of consumer behaviour, learning is defined as changes in behaviour that result from previous experiences. Learning is an ongoing process that is dynamic, adaptive, and subject to change. Learning does not include behaviour associated with instinctive responses or temporary states of an individual, such as hunger, fatigue, or sleep.

Learning is an experience and practice that actually brings about changes in behaviour. For example, to learn to play tennis, you might learn about the rules of the game and the skills tennis players need. You would practice the skills and participate in tennis games to gain experience. Learning can also take place without actually participating in the physical experience. You can learn about something conceptually, too. In other words, you could learn to play tennis by observing experts and reading about it without actually doing it. This is called *non-experiential learning*.

Consumer decisions can be influenced by both experiential and non-experiential learning. Take an example of buying wine. Suppose you are at a winery and you are considering buying a bottle of zinfandel, which you have never tried before. If you taste the wine and discover you don't care for the strong, spicy flavour, you have learned experientially that you don't like zinfandel. On the other hand, you could ask the tasting room host about the flavour of zinfandel, and she might say that it resembles strong ginger ale, in which case you might decide not to buy the wine because you don't like ginger ale. In this second case, you have learned about the product non-experientially.

Marketing relies heavily on non-experiential learning, using tactics like customer testimonials, case studies, and blogger reviews to teach new customers through the experiences and opinions of others. Consumers themselves seek out resources for non-experiential learning when they read book reviews on Amazon, product reviews on Amazon, film reviews on Rotten Tomatoes, and restaurant reviews on Yelp.

Another characteristic of learning is that the changes may be immediate or anticipated. In other words, learning may be taking place even if there is no evidence of it. We can store our learning until it's needed, and we do this often with purchasing decisions. For example, a person might read up on product reviews for the latest set of tablet computers even though she doesn't expect to buy one soon. Eventually, she may be in the market, and at that point, she can put her learning to use.

Reinforcement is the process of having your learning validated through rewards or punishments, which confirm that what you learned was correct. Over time, reinforcement can shape strong patterns of behaviour. Suppose a consumer's first car purchase is a Subaru. He loves the car and finds it to be safe, reliable, energy-efficient, and a great value for the money. Each positive experience with his car rewards him and reinforces what he has learned about Subarus: they are great cars. When he decides to replace the car, positive reinforcement will almost certainly lead him to consider a Subaru again. Reinforcement can work in positive or negative ways, with consumers experiencing rewards or punishments that influence their decisions.

Socialisation is the process by which people develop knowledge and skills that make them more or less able members of their society. Socialised behaviours are learned and modified throughout a person's lifetime. This social learning approach stresses "socialisation agents" (i.e., other people), who transmit cognitive and behavioural patterns to the learner. These people can be anyone: a parent, friend, celebrity spokesperson, teacher, role model, etc. In the case of socialisation in consumer behaviour, this takes place in the course of the person's interaction with other people in various social settings. Socialisation agents may include any person, organisation, or information source that comes into contact with the consumer.

Consumers acquire this information from other individuals through the processes of modelling, reinforcement, and social interaction. *Modelling* involves imitation of the agent's behaviour. For example, a teenager may acquire a brand-name preference for Adidas from friends and teammates. Marketers can take advantage of this idea by employing product spokespeople who have strong credibility with their target consumers, as in the case of NBA star LeBron James for Nike. As noted above, *reinforcement* involves either a reward or a punishment mechanism used by the agent. When a colleague compliments a coworker on her outfit, it conveys a rewarding message about the type of clothing to wear to work. Marketers may use reinforcement by providing good product performance, excellent post-purchase services, or some similar rewarding experience. Social interaction may include a combination of modelling and reinforcement in a variety of social settings. These variables can influence learning by affecting the relationship between the consumer and other people.

Attitudes and Beliefs

Attitudes and beliefs represent another psychological factor that influences consumer behaviour. A **belief** is a conviction a person holds about something, such as "dark chocolate is bitter," or "dark chocolate is delicious," or "dark chocolate is good for baking." An **attitude** is a consistent view of something that encompasses the belief, as well as an emotional feeling and related behaviour. For example, an attitude toward dark chocolate may be expressed as a belief ("dark chocolate is delicious"), a feeling ("dark chocolate makes me happy"), and a behaviour ("I eat dark chocolate every afternoon as a pick-me-up").

People have beliefs and attitudes about all sorts of things: food, family, politics, places, holidays, religion, brands, and so on. Beliefs and attitudes may be positive, negative, or neutral, and they may be based on opinion or fact. Marketers need to understand how beliefs and attitudes affect consumer behaviour and decision-making. If an incorrect or detrimental belief exists among the general population or a target audience, marketing efforts may be needed to change people's minds.

For example, in 1993, rumours erupted and spread widely about a syringe allegedly being found inside a can of Diet Pepsi. The entire incident turned out to be a hoax, but PepsiCo responded not only with strong immediate public statements but also with videos and a public relations campaign to quell the rumours and reassure consumers that Pepsi products are safe.

A more recent example would be the Cinnamon Toast Crunch Shrimp fiasco[1], where comedy writer Jensen Karp discovered sugar-coated shrimp tails in his box of cereal in 2021. Initially, the company dismissed the claim, claiming that what he found was not shrimp, which resulted in more retaliation from Jensen Karp and speculations online. The company's responses were not strong enough to change Karp's mind; however, many allegations have since come

1. Marcus, E. (2021) The Curious Case of the Cinnamon Toast Crunch Box, *The New York Times*, 23 March. https://www.nytimes.com/2021/03/23/style/cinnamon-toast-crunch-shrimp.html, Accessed 20 August 2025.

out about him, which resulted in even more speculation as to whether this was a hoax or not. Cinnamon Toast Crunch's PR team was not able to change people's minds, but individuals online coming forward did. If they didn't, then this whole situation could have been a misstep and caused them to see a reduction in sales. The public's attitudes and behaviours towards the product and brand have not changed, as the cereal is still very popular, but the situation has slightly made people more sceptical in their beliefs about the cereal's food safety.

Beliefs and attitudes do not always translate into behaviours: in some situations, customers may choose to do something despite their personal views. Suppose a consumer likes pizza but doesn't like Pizza Hut. In a social setting where everyone else wants to go to Pizza Hut for dinner, this person might go along with the group rather than dining alone or skipping dinner.

When consumer attitudes present a major stumbling block, marketers have two choices: either they can change consumers' attitudes to conform with their product, or they can change the product to match attitudes. Often, it is easier to change the product than to change consumers' attitudes. Attitudes can be very difficult to change, chiefly because they are intertwined with a pattern of beliefs, emotions, and behaviours. Changing the attitude requires changing the whole pattern. As a rule, it is easier for marketing to align with existing attitudes rather than trying to alter them.

However, marketers may look for opportunities to reshape or create new attitudes in moments when consumers may be more open-minded, as with a product redesign or a new product introduction.

Putting Consumer Attitudes and Beliefs to the Test

Just how powerful are consumer attitudes and beliefs? Are they so powerful that they can fool consumers during a smell test?

Watch the following video to see the power of consumer attitudes and beliefs in action. Febreze uses people's beliefs based on their smell to advertise their product further and prove their point by subverting expectations.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=330#oembed-1

People Influencing People

Social factors represent another important set of influences on consumer behaviour. Specifically, these effects are the result of people and groups influencing one another through culture, subculture, social class, reference groups, and family.

Culture

A large group **of people** represents a person's culture with a similar heritage. Culture exerts a strong influence on a person's needs and wants because it is through culture that we learn how to live, what to value, and how to conduct ourselves in society.

Marketing strategies targeted at people with a shared cultural heritage may demonstrate how a product or service reinforces these traditional values. There are three components of culture that members of that culture share: beliefs, values, and customs. As discussed in the prior section, a *belief* is a proposition that reflects a person's particular knowledge or opinion of something. *Values* are general statements that guide behaviour and influence beliefs. The function of a value system is to help people choose between alternatives in everyday life and prioritise choices that are most important to them personally.

> Stats NZ provides statistics on the state of wellbeing in New Zealand. The measure includes answers to questions about daily activity, personal life, emotional wellbeing, and work environment. Compared to 2018, in 2023 Kiwis were more inclined to eat fresh fruit and were less likely to visit crowded places, possibly due to the impact of Covid.
>
> [1]

Customs are traditional, culturally approved ways of behaving in specific situations. For example, in contrast to the U.S. celebration of Thanksgiving on the third Thursday in November, Canadian Thanksgiving is a holiday celebrated on the second Monday in October. Both, however, include the custom of feasting with family and offering thanks for the things we appreciate in life. Taking your mother to dinner and giving her gifts for Mother's Day is a custom that Hallmark and other card companies support enthusiastically.

Understanding customs is important for marketing to consumers because many customs represent occasions for spending money, and culture dictates the appropriate things to buy in order to honour the custom. The power of culture is evident when you consider the tens of millions of North Americans who purchase Valentine's Day flowers

1. Stats NZ (2025) Wellbeing, https://www.stats.govt.nz/topics/well-being/

in February, chocolate Easter eggs in April, fireworks in July, Halloween candy in October, and a variety of food and gifts throughout the holiday season.

It is worth noting that for marketers worldwide, developing a strong understanding of the local culture and its accompanying beliefs, values, and customs is essential. Culture is how people make sense of their society, its institutions, and social order. Culture frames how and what people communicate, how they express what is proper and improper, and what is desirable and detestable. Without an understanding of culture, marketers are not really even speaking the right language to the consumers they want to target. Even if the words, grammar, and pronunciation are correct, the meaning will be off.

A notable example of a massive cultural blunder was Walmart's brief foray into Germany. In 2006, the retailer withdrew from Germany after opening eighty-five stores in just six years. The company expected success in Germany using the formula that works well in the U.S.: streamlined supply chain, low-priced products sold in big stores with a wide selection and long operating hours. What Walmart didn't account for was the strong cultural preference in Germany for several things that directly oppose the Walmart model. Germans prefer small and medium-sized retailers grounded in local communities. They have a cultural aversion to low prices, which creates concerns about quality. German law includes significant restrictions on retail establishments' operating hours and many labour protections, and these laws are viewed, in part, as important in protecting the German quality of life. Due in large part to these cultural disconnects, Walmart was unable to sustain successful operations.[2]

Subculture

Subcultures are cohesive groups that exist within a larger culture. Subcultures develop around communities that share common values, beliefs, and experiences. They may be based on a variety of different unifying factors. For example, subcultures exist around the following:

- **Geography**: New England, the Mideast, the Southeast, the Great Lakes, the Plains, the Southwest, the Rocky Mountains, and the Far West
- **Ethnicity**: American Indian/Alaska Native, Asian, Black, Hispanic/Latino, Caucasian, etc.
- **Religion**: Catholics, Jews, Mormons, Baptists, Protestants, Muslims, etc.
- **Nationality**: Italian, South Korean, German, Irish, English, etc.
- **Occupation**: military, technology worker, government employee, clergy, educator, etc.

Subcultures can represent huge opportunities for marketers to make a significant impact within a population that may feel underserved by companies operating in the mainstream market. Individuals with strong subcultural identity are likely to welcome organisations that seem to understand them, speak their subcultural language, and satisfy their subculture-specific needs.

Many organisations and marketing activities focus on major ethnicity-based subcultures such as Latino/Latinx or Asian. Each subculture has distinct experiences living and working within the broader culture, and it has shared customs and values that shape its consumer needs and preferences. As each of these subcultures grows in size and buying power, it becomes a distinct market for companies to woo.

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2. Jui, P. (2011, May 16). *Walmart's Downfall in Germany: A Case Study*. Journal of International Management. https://journalofinternational-management.wordpress.com/2011/05/16/walmarts-downfall-in-germany-a-case-study/

A noted example of effective marketing to a subculture is Ford Motor Company's approach to serving the African American community. Ford invests in advertising campaigns that specifically target the black community and celebrate its diversity. Ford supports various scholarship and community-building programs at Historically Black Colleges and Universities (HBCUs). Through public relations activities, Ford maintains a presence at significant events, such as the Essence Festival and the BET Awards.[34]

The following video shows how a shopping mall managed to save itself by catering and marketing to the Latino subculture.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=333#oembed-1

You can view the transcript for the video "Demise of the Mall and Reinvention". (opens in new window)

Alma de Mexico dancers at Latino Fest today in Lorain. Authored by: Rona Proudfoot. Located at: https://www.flickr.com/photos/ronnie44052/3938931572/. License: CC BY-SA: Attribution-ShareAlike

Social Class

Some manifestation of *social class* is present in virtually every society. It's determined by a combination of factors, including family background, wealth, income, education, occupation, power, and prestige. Like culture, it affects consumer behaviour by shaping individuals' perceptions of their needs and wants. People in the same social class tend to have similar attitudes, live in similar neighbourhoods, attend the same schools, have similar tastes in fashion, and shop at the same types of stores.

In some nations, the social class system is quite rigid, and people are strongly encouraged to stay within their own class for friendships, marriage, career, and other life decisions. In other countries, such as the United States and Canada, social class is more permeable, and people can move between classes more easily based on their circumstances, behaviours, and life choices. Social class mobility is a highly valued aspect in mainstream U.S. culture and is integral to our collective understanding of what makes the country great.

3. Bell, L. (2015, October 12). *Why Procter & Gamble, McDonald's & Ford are Catering to the Black Consumer*. Fox News. https://www.foxbusiness.com/features/why-procter-gamble-mcdonalds-ford-are-catering-to-the-black-consumer/

4. Black Enterprise. (2018, September 17). *Black media mourns one of its champions.* Target Market News. http://targetmarketnews.com/storyid06071201.htm

For marketers, social class may be a useful factor to consider in segmentation and targeting. It provides helpful context about how consumers view themselves and their peer groups, their expectations, life experiences, income levels, and the kinds of challenges they face. For example, if a marketer wishes to target efforts toward the upper classes, they should realise that, first, this is a very small proportion of the population, and second, the market offering must be designed to meet their high expectations in terms of quality, service, and atmosphere. Having enough money is a persistent concern for people in the lower, working, and lower-middle classes, so price sensitivity and value for the money are important for products targeting these groups.

Reference Groups

The groups can influence consumer behaviour that a person comes into contact with, through friendship, face-to-face interaction, and even indirect contact. Marketers often call these reference groups. A *reference group* may be either a formal or informal group. Examples include churches, clubs, schools, online social networks, playgroups, professional organisations, and even groups of friends and acquaintances. Individuals may be influenced by the groups they belong to. They may also be influenced by *aspirational groups – a reference group a person hopes to belong to one day, such as young boys who aspire* to grow up and become Major League Soccer (MLS) players.

Reference groups are characterised by having individuals who are opinion leaders for the group. *Opinion leaders* are people who influence others. They are not necessarily higher-income individuals or those with better education, but others may perceive them as having greater expertise, broader experience, or deeper knowledge of a particular topic. For example, a local high school teacher may be an opinion leader for parents in selecting colleges for their children. In a group of girlfriends, one or two may be the opinion leaders others look to for fashion guidance. These people set the trend, and others conform to the expressed behaviour. If a marketer can identify the opinion leaders within a target market, they can focus on attracting these individuals.

The reference group can influence an individual in several ways:

- **Role expectations:** Reference groups prescribe a role or way of behaving based on the situation and one's position in that situation. For example, as a student, you are expected to behave in a certain basic way under certain conditions when interacting with a reference group at school.
- **Conformity:** Conformity is the way we modify our behaviour to fit in with group norms. Norms are "normal" behavioural expectations that are considered appropriate within the group. To illustrate, in a school lecture setting, you might conform to the group norm of raising your hand to make a comment or question, rather than shouting out to the teacher.
- **Group communications through opinion leaders:** As consumers, we constantly seek out the advice of knowledgeable friends or acquaintances who can provide information, offer guidance, or even make decisions on our behalf. In some product categories, there are professional opinion leaders who are easily identifiable, such as auto mechanics, beauticians, stockbrokers, or physicians. In a school setting, an opinion leader might be a favorite teacher who does a good job explaining the material, a popular administrator who communicates well with students and parents, or a well-liked fellow student who is willing to assist when peers ask for help–or all of these individuals.
- **Word-of-mouth influence:** Consumers are influenced by what others say. This is "word-of-mouth" communication. It happens every time you ask someone for a recommendation or an opinion about a product or service, and every time someone volunteers an opinion. *Do you know a good dentist? Where should we go for lunch? Have you heard that new song from . . . ?* Not surprisingly, research consistently shows that word-of-mouth information from people they know is more credible than advertising and marketing messages. Word-

of-mouth influence in the school reference group example might include students discussing which Spanish instructor is better, or where to shop for a dress to wear to the homecoming dance.

Reference groups and opinion leaders are crucial concepts in digital marketing, where consumers engage with a range of social networks and online communities. Marketers need to understand which reference groups influence their target segments and identify the opinion leaders within these groups. Those leaders may be bloggers, individuals with numerous followers who post frequently on various social media platforms, and even people who write numerous online reviews. Then, the marketing activity can focus on winning over the opinion leaders. If you manage to get the opinion leaders in your segment to like your product, follow your brand, tweet about your news and publish favourable reviews or comments on their blogs, your work with online reference groups is going well. (You'll recall from the module on ethics that this was the strategy Microsoft adopted—and misgauged—when it attempted to influence opinion leaders with its gifts of free laptops loaded with its latest operating system.)

Family

One of the most important reference groups for an individual in the family. A consumer's family has a major impact on attitude and behaviour, and families themselves are critically important in society as consumer units. Family members make many consumer decisions on behalf of the family, so understanding the family consumer decision-making dynamics around your product is essential.

Depending on the product or service under consideration, different family members may hold the role of primary decision-maker or influencer. In some cases, the husband is dominant, in others, the wife or children, and still in other cases, families make joint decisions. Traditionally, in Western cultures, the wife has made the primary decisions around store choice and brands for food and household items, although this has evolved somewhat as more women participate in the workforce. A joint decision is typical for purchases involving a larger sum of money, such as a refrigerator or a vehicle. Teenagers often have a significant influence over their own clothing purchases. Children may heavily influence food and entertainment choices. Of course, decision dynamics within any individual family can vary, but marketers need to understand the general tendencies around family decision-making for the product or service in question.[5]

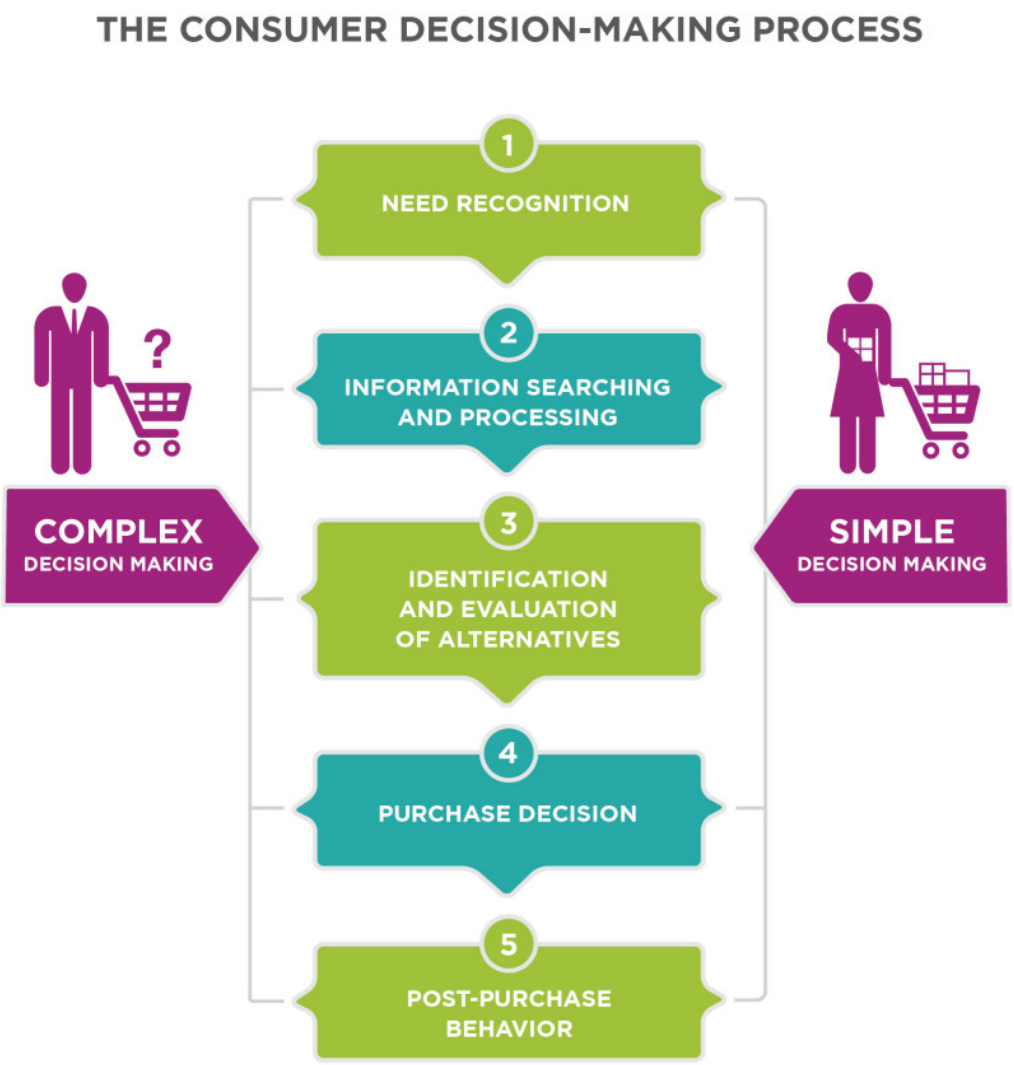
5. El-Assal, K., Thevenot, S., Moetaz, M., Miekus, A. (2020, March 12). *Canada to welcome up to 390,000 immigrants in 2022*. CIC News. https://www.cicnews.com/2020/03/canada-to-welcome-up-to-390000-immigrants-in-2022-0313872.html#gs.9kyqch

4.5 PUTTING IT TOGETHER: CONSUMER BEHAVIOUR

Applying the Concepts: Finn's Family Buys a Pet

Do you remember Finn, the newest little consumer who arrived at the beginning of this module? Let's suppose that Finn's parents decide they want him to grow up with an animal friend. This gives us a chance to apply what we've been discussing about consumer behaviour and see what happens as they go through the consumer decision process to buy a pet.

Since finding a pet is definitely a high-involvement decision for them, these are the steps they will go through:



Source: Lumen Learning. Putting It Together: Consumer Behaviour, in Module 7. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/putting-it-together-consumer-behavior/

Recognize Needs

The Consumer Perspective: Finn's parents, Robert and Amanda, are aware that they want a pet. They're not sure what kind of pet they want. They're pretty sure they want it to be cuddly and lovable—something a child can interact with and not get too wet, bitten, or diseased (or maybe just a little). They also want a pet with some longevity, so that Finn can grow up with his animal friend. Although they are busy adjusting to a new baby, Robert and Amanda are both on leave from their jobs for eight weeks, so it could be a good time to get used to a new animal, too. They decide it's time to get serious about finding a pet.

The Marketer's Perspective and Tactics: You manage marketing for an animal rescue organisation in your local community. Somehow, you need to get in front of Finn's family to let them know about your animals and why

they should start their search with you. Fortunately, you've been working with Google to get a paid placement for your organisation near the top of Google searches for kittens and puppies in your area, so when Robert does his first search, he sees your listing. You also routinely post flyers on information boards around your community, and you've been working on your website to ensure it is search-optimised for people searching for pets in your area.

Search for Information

The Consumer Perspective: Robert has become skilled at searching the Internet while rocking Finn to sleep simultaneously. He and Amanda need to research a few questions:

- What kind of pet should they get: dog, cat, guinea pig, ferret, something else?
- Where should they get the pet: pet shop, breeder, online provider, animal rescue, somewhere else?
- How much should they expect to pay for the pet?
- How should they take care of the pet once they get it?

Robert is already leaning strongly toward getting a dog. His family had dogs when he was growing up, and he loves the idea of his son having the same experience. Amanda is on the fence until they start reading about the best pets for kids in parenting articles online and start talking to friends. Robert's family preference for dogs is validated in articles claiming that dogs are good pets for children and that potential problems (allergies, behaviour issues) can be minimised by having the dog around children from a young age. As they begin to investigate places to get a dog, Amanda and Robert are disturbed to read about puppy mills and warnings against buying dogs from unscrupulous online sellers. They agree that they should stay local and check out pet shops, breeders, or animal rescue organisations in their area. Animal rescue would probably be the cheapest option, but they want to shop around and see what's available.

The Marketer's Perspective and Tactics: One of your organisation's board members is a well-known mommy blogger who feels passionately about pets and kids. At your request, she has written a few posts over the past several months, providing advice for parents who are considering a pet and recommending animal rescue as the preferred option. You've cross-posted her pieces on the rescue organisation's website blog, and she's linked to your website in her posts. You know from Google Analytics that you're getting pretty good traffic to your website from that link and her posts. The website also contains information to educate people about the advantages of adopting rescue animals, highlighting the rewards of offering these pets a loving home. You know from research that families tend to get interested in pets when they have young children, so you update the website with adorable recent adoption photos showing young families welcoming their new pets. You also know that people have lots of questions when they're looking for pets, so you prominently feature "Adopting a Pet: What To Expect" on your website.

Evaluate Alternatives

The Consumer Perspective: Now that Robert and Amanda know they want a dog, they are honing in on what type of dog and where to get it. They've been reading dog owner sites about different breeds and Yelp reviews about people's experiences with local pet shops, breeders, and rescue organisations. They are keeping an eye on Craigslist to see what shows up there, and they've made a couple of visits to see some of the breeds they are considering. Robert is particularly charmed by a local breeder's Labradoodles, and online communities rave about how well these dogs get along with children. However, there is a year-long waitlist for the puppies, and they cost upwards of $1,500. Amanda has joined a mothers' group, and two of the moms have dogs. One has a golden retriever. She bought the dog at a

local pet shop and loves him, but she has been surprised by the number of health issues he has had. The other mom has a friendly terrier mix she got from a local rescue organisation, and she was very happy with the experience.

The Marketer's Perspective and Tactics: You're trying to do more with word-of-mouth and social media promotion, so you've started asking each family that adopts one of your animals to post about their experience on Yelp and Google reviews. You've been doing more with Facebook and Instagram, building up followers and posting pictures of some of the sweet rescue animals people can meet and adopt. Since it's free, you also post regularly in the "Pets" area of Craigslist, and you've found that it is a great way to connect with local area families looking for pets. Craigslist shoppers tend to be good candidates for adopting rescue animals. When people come into the centre, you find out what they are looking for, and you make sure they learn about the advantages of adopting a rescue animal and how simple the process can be. You also receive their contact information, allowing you to stay in touch with them electronically and notify them when a new animal arrives that might be a good fit for their family.

Make a Purchase

The Consumer Perspective: Amanda is very moved by their visit to the local animal rescue centre. She is impressed with several of the dogs they met, and she loves the idea of adopting an already-house-trained pet, instead of starting from scratch with a puppy. Robert's heart is still with the Labradoodles, but they agree that the yearlong wait and hefty price tag probably aren't worth it. Although the pet store puppies are adorable, Amanda keeps thinking about her friend's golden retriever and health problems, which are probably linked to overbreeding. After thinking things over, they decide to return to the rescue centre with Finn and meet the dogs there again. This time, one of the dogs is a standout: a smart little Scottish terrier mix named Bonnie who makes Finn's eyes light up every time she comes near. The choice is made, and the James family is delighted.

The Marketer's Perspective and Tactics: Once a family comes to the centre a second time, you know from experience that they're hooked. You need to make sure they fall in love with an animal that will be a good fit for their children and living situation. You've designed the application process to make sure that it helps you screen people and also match them with the best pets. However, it's also a thoughtful and informative experience for those who come in, allowing them to learn about what it takes to be a good pet owner. Once a new pet owner finds "The One," you snap photos for the happy family bulletin board at the centre and ask permission to share the pictures on your website and social media. You also invite them to post the picture on social media and share their experience with the centre in a Yelp or Foursquare review. A going-home packet includes useful information about caring for their new animal and contact information in case they have questions or concerns.

Post-Purchase Behavior

The Consumer Perspective: The new addition to the James family is everything Amanda and Robert had hoped for. Bonnie is sweet-tempered, playful, gentle with Finn, and smart as a whip. For Robert, Bonnie brings back the joy and companionship he remembers from his childhood pets. Amanda is so delighted that she tells everyone who will listen about their wonderful experience adopting a rescue animal. Next time they are considering a pet, they'll know exactly where to go.

Bonnie, the winner. Tchiorny Terrier. Authored by: Stephan Czuratis. Located at: https://commons.wikimedia.org/wiki/File:Tchiorny_Terrier.jpg. License: CC BY-SA: Attribution-ShareAlike

The Marketer's Perspective and Tactics: You've developed a process for checking in on adoption families after a couple of weeks to ensure things are going well. If they haven't done so already, you nudge them to write a review about their adoption experience on Yelp or another review site, assuming their experience has been good. If they aren't doing so well, you try to find out why and suggest some tips and strategies for turning things around. If red flags come up during these conversations, you make a note for one of the centre's volunteers to do a wellness check on the owner and animal, so that the centre can intervene and avoid serious problems. Fortunately, the follow-up process often yields heartwarming stories about the love between the animals and their new families. And that's a major reason why you keep doing this job.

CHAPTER 5: SEGMENTATION AND TARGETING

Learning Objectives

- Define segmentation and targeting
- Explain the purpose of segmentation and targeting in marketing
- Describe common segmentation approaches
- Explain the process of selecting an appropriate segmentation approach and deciding which customer segments to target for marketing activities
- Explain how targeting influences each element of the marketing mix

5.1 WHY IT MATTERS: SEGMENTATION AND TARGETING

Learning Objective

Determine market segments and target customers

Suppose you have just accepted a product marketing job with a technology company called Chumber. You're excited about the company and the team you'll be working with. Chumber's main product is an automated, fully online system for checking the references of job candidates and getting feedback from coworkers about their professional skills.

After a morning orientation session and a product demonstration on the first day, your boss gives you your first assignment: spend a half-day doing research. Then come back to her with recommendations about whom Chumber should be targeting in its sales and marketing activities, and why.

After you give your boss a puzzled look, she adds, "Don't look so worried. I already know who I think we should be targeting. But with you coming in fresh, I'd like to hear what you think. We can probably learn something from each other!"

As you sit down at your new desk, the wheels start turning in your head.

Q: What problem is Chumber's product solving?

A: The hassle of checking references for job candidates and finding out who is really a good fit.

Q: Who has this problem?

A: Companies that hire people.

You recognize that this is a business-to-business marketing challenge, not a business-to-consumer issue. But "companies that hire people" covers a lot of ground. How effective will Chumber be if you try marketing and selling to every company in the world? And within any given company, which people would be most interested in using this product?

The question of whom to target is a foundational part of any marketing activity. Marketers use the tools of segmentation and targeting to answer this question. **Segmentation** helps you understand your market and divide it into groups that share common needs and characteristics. **Targeting** helps you figure out which of these groups to focus on in your sales and marketing activities.

As you work through this module, you will learn about segmentation, targeting, and how they work. You will also learn how these tools help you shape the marketing mix to reach your target audiences effectively.

5.2 SEGMENTATION AND TARGETING RATIONALE

Learning Objective

Explain the purpose of segmentation and targeting in marketing

Segmentation and targeting are essential building blocks of marketing because they help marketers answer a basic question: *Who am I trying to reach?*

If you can't answer this question with a reasonable amount of certainty and detail, your marketing efforts will probably not have much impact. You'll spend a lot of time and money with little to show for it because you're not choosing marketing tactics that fit your audience.

However, when you know your target audience, you can make smart decisions about your marketing activities: why they need your product, where and how to get their attention, what to say to generate interest, and what types of offers will attract them.

In this module, first, we will focus on why segmentation and targeting are so important. Then we will discuss how to conduct segmentation and targeting and use these tools to guide marketing activity.

Learning Activities

- Reading: The Purpose of Market Segmentation and Targeting

What Is Market Segmentation All About?

Segmentation helps marketers answer the following set of fundamental questions:

1. To whom should I be marketing?
2. Why *them*?
3. How can I reach them most effectively?

Because marketers have finite resources, they have to make decisions about how and where to focus their efforts. Market segmentation provides useful information about prospective customers to guide these decisions and to ensure that marketing activities are more buyer-focused.

Market segmentation is the process of splitting buyers into distinct, measurable groups that share similar wants and needs. Once different segments are identified, marketers determine which target segments to focus on to support corporate strategy and growth.

For example, suppose your company produces high-performance athletic clothing. The market segmentation first identifies everyone with an interest in and need for this type of clothing. Then it identifies groups within the market that share common needs. These could include groups associated with different sports, levels of athletic activity, brand loyalty, fashion consciousness, price sensitivity, etc. As a marketer, you analyze the groups to determine which ones you want to focus on and why.

Defining a Market

In order to understand the purpose and benefits of segmentation, it's helpful to step back momentarily and look at markets as a whole and how segments help us understand a market. A market is a group of potential buyers with needs and wants, as well as the purchasing power to satisfy those needs and wants. These buyers might be individuals, groups, businesses, or organizations. The "total market" constitutes all the potential customers for a given product. Potential customers share a common problem or business need that your product can address, and they share other characteristics as well. In order for a market to exist, the following five criteria must be met:

1. There must be a true need and/or want for the product, service, or idea; this need may be recognized, unrecognized, or latent.
2. The person/organization must have the ability to pay for the product via means acceptable to the marketer.
3. The person/organization must be willing to buy the product.
4. The person/organization must have the authority to buy the product.
5. The total number of people/organizations meeting the previous criteria must be large enough to be profitable for the marketer.

If these criteria aren't met, there probably isn't a viable market for your product(s).

Segments within a Market

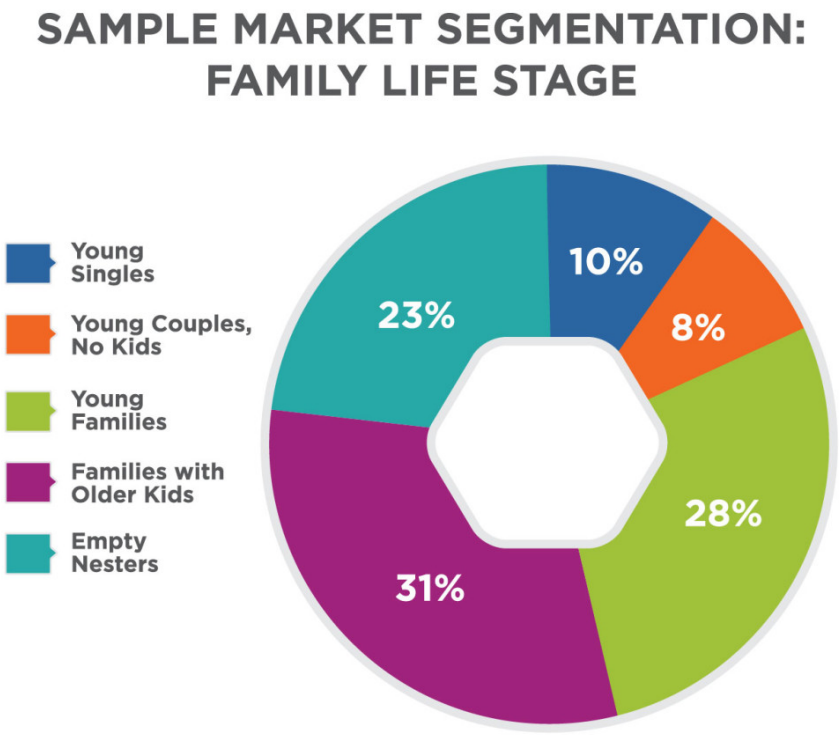
Markets are generally large entities that require significant investment to serve effectively. In fact, markets may be so large that it isn't feasible for a marketing organization to market its products effectively to all potential customers at the same time. A product provider might ask, "Given that my product will not be needed or wanted by all people in the market, and given that my organization has certain strengths and weaknesses, which target group(s) should I focus on?"

The answer to this question comes through market segmentation. Segmentation is a twofold process that includes:

1. Identifying and classifying people into homogeneous groupings, called segments
2. Determining which of these segments are viable target markets.

In essence, the marketing objectives of segmentation are:

- To improve an organization's understanding of who their prospective customers are and how to serve them
- To reduce risk in deciding where, when, how, and to whom a product, service, or brand will be marketed
- To increase marketing efficiency by directing effort toward designated segment(s) in ways that are consistent with that segment's characteristics



Source: Lumen Learning. The Purpose of Market Segmentation and Targeting, in Module 3. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-the-purpose-of-market-segmentation-and-targeting/

While, in theory, there may be "ideal" market segments for any given product, in reality, every organization engaged

in a market will develop different ways of imagining market segments and create product differentiation strategies to exploit those segments. With a refined understanding of market segments, companies can differentiate their products to fit the needs of a particular segment. They can also use segmentation analysis to identify and create competitive advantages with their target audiences. A deeper understanding of their target audiences can guide marketers' choices in how they develop and promote products, how their products are delivered and priced, and so forth.

Focusing on the Target Market

It is rare that any single product will be an ideal fit for every member of an entire market. For example, no single shampoo is perfect for everyone on the planet. No single printer or cleaning service is ideal for every organization in the world. Buyers have different sets of needs. Segmentation acknowledges that different people and groups have different needs. Successful marketers use segmentation to figure out which groups (or segments) within the market are the best fit for the products they offer. These groups constitute their target market.

The target market should include only those segments of a market that are both profitable to serve and likely to be receptive to the products a company provides. Time, money, and effort spent on marketing will be most effective when it focuses on these target audiences. When organizations don't identify a target market, they dilute the impact of their marketing resources because they are spending money and effort trying to attract people who are unlikely ever to become profitable customers.

5.3 COMMON SEGMENTATION APPROACHES

Learning Objectives

Describe common segmentation approaches

The next section of this module walks through several common approaches to market segmentation. Some approaches will probably seem familiar, or even obvious—like segmenting by gender or income level—but others, like "psychographic" segmentation, may not. These methods are common because they provide useful guidance to marketers about how to identify and reach prospective buyers.

It's important to remember that there may be more than one "right" way to segment a market. Certainly, there are more effective and less-effective approaches for different products or services. Sometimes a segmentation strategy is effective for a while, but then something shifts, and a new approach is needed. In that way, segmentation is like a compass for marketers: when your position or direction changes, you revisit market segmentation to fine-tune where you're heading and how to get there. Different segmentation approaches applied individually or together help refine a marketer's understanding of the target market.

Learning Activities

- Reading: Segmentation Criteria and Approaches

Common Approaches to Market Segmentation

Segmentation starts by identifying all the potential buyers for your product: individuals with the need and the means to buy what you offer. In most cases, this represents a large universe of people or organizations that are similar in some ways but different in many other ways. Segmentation is a process that helps marketers narrow their focus on the most promising groups within that universe.

There is no single correct way to segment a market. Defining a target consumer base can be performed using a variety of segmentation methods. Several common methods are discussed below. Marketers may apply a combination of these methods to provide greater insight into their target market and the customers they want to serve. In fact, good marketers generally try out different methods and combinations to figure out what approach is most successful to help them achieve their goals. Because people and their needs change, effective approaches for segmenting a market can also evolve over time.

The following is a list of common market segmentation approaches:

- **Geographic: countries**, provinces, regions, cities, neighbourhoods, postal codes, etc.
- **Demographic:** age, gender, family size, income, occupation, education, religion, ethnicity, and nationality.
- **Psychographic:** lifestyle, personality, attitudes, and social class.
- **Behavioral:** user status, purchase occasion, loyalty, readiness to buy.
- **Decision maker:** decision-making role (purchaser, influencer, etc.)

Geographic Segmentation

Geographic criteria—countries, provinces, regions, cities, neighbourhoods–define geographic market segments. Geography represents the oldest basis for segmentation. Regional differences in consumer tastes for products are well known, such as a preference for ranch dressing (on everything) in the Midwest, sushi on the West Coast (and, increasingly, in Fayetteville), and hot sauce in the South. Geographic segmentation suggests that you are less likely to sell heavy winter coats in Houston than in Maine.

Geographic markets are easily identified, and large amounts of data are usually available. Many companies simply do not have the resources to expand beyond local or regional areas, so they must focus on one geographic segment only. There is very little waste in the marketing effort, in that the product and supporting activities such as advertising, physical distribution, and repair can all be directed at the customer. Further, geography provides a convenient organizational framework. Products, salespeople, and distribution networks can all be organized around a central, specific location.

For example, per capita personal income in NW Arkansas area ranks 18th in the U.S., making this area more like

major cities in other states than like the rest of the state of Arkansas [1]. Because of this difference, preferences and buying behaviors might differ from other areas in the state,

The drawbacks of using a geographic basis for segmentation are also worth noting. There is always the possibility that consumer preferences aren't dictated by location—other factors, such as ethnic origin or income, may be more important.

Demographic Segmentation

Demographics are statistical data that describe various characteristics of a population. Demographic segmentation consists of dividing the market into groups based on demographic variables such as age, gender, family size, income, occupation, education, religion, political opinions, ethnicity, and nationality. Demographic segmentation variables are among the most popular bases for segmenting customer groups because demographic data are plentiful and the customer wants and needs often link closely to these variables.

For example, the youth market (roughly ages five to thirteen) not only influences how their parents spend money but also how they make purchases of their own. Manufacturers of products such as toys, records, snack foods, and video games have designed promotional efforts directed at this group. "Tweens" are children between the ages of eight and twelve who are discovering what it means to be a consumer and are shaping the attitudes and brand perceptions they will carry with them as they grow up and gain more purchasing power. The elderly market (age sixty-five and over) has grown in importance for producers of products such as low-cost housing, cruises, hobbies, and health care.

Vancouver Chinatown By Xicotencatl. Wikimedia Commons. CC BY-SA

Marketing to consumers in NWA's multi-ethnic neighbourhoods may mean menu offerings (and signs) are not just displayed in English. Pay attention to the local restaurants that offer foods for one or more specific ethic sub-groups.

Dove Shampoo

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=142#oembed-1

1. *Northwest Arkansas Ranks No. 18 in Per Capita Income, Data Shows*. (2019, November 14). Northwest Arkansas Council https://nwacouncil.org/2019/11/14/northwest-arkansas-ranks-no-18-in-per-capita-income-data-shows/

The Dove advertisement illustrates how the advertising and marketing promotion of Dove's Men+Care product line focuses on the unique needs and interests of the young to middle-aged male segment.

You can view the transcript for "Dove Men+Care Asks: Is your hair ready for anything?". (opens in new window)

Life stage is another demographic trait associated with age, gender, marital, and family status. There is evidence that individuals and families go through predictable behavioral patterns associated with buying behaviors. For example, a young couple with one young child has far different purchasing needs than empty-nesters in their late fifties or single, middle-aged professionals.[2]

Income is perhaps the most common demographic basis for segmenting a market because it indicates who can or cannot afford a particular product. It is quite reasonable, for example, to assume that individuals earning minimum wage could not easily purchase a $80,000 sports car. Income is particularly useful as a segmentation input as the price tag for a product increases. It can also be helpful in understanding certain types of buying behavior, such as which income groups are most prone to use coupons.

Similarly, other demographic characteristics can influence other types of consumer activities.

Despite the apparent advantages of demographic segmentation (i.e., low cost and ease of implementation), uncertainty exists about its effectiveness. The method can be misused. For example, it might be said that the typical consumer of Thai food is under thirty-five years of age, has a college education, earns more than $10,000 a year, lives in a suburban fringe of a moderate-size urban community, and resides in the West. While these characteristics may describe a typical consumer of Thai food, they also describe many other consumers and may paint an overly broad or inaccurate portrait of a supposed "segment." When a segment is too broad, it loses its defining characteristics and there isn't much to differentiate the target segment from the general population. In this situation, the segmentation approach does not provide much useful guidance to help marketers make effective marketing choices.

Psychographic Segmentation

In psychographic segmentation, consumers are divided according to common characteristics in their lifestyle, personality, attitudes, and social class. Evidence suggests that attitudes of prospective buyers toward certain products influence their subsequent purchase or nonpurchase of them. If persons with similar attitudes can be isolated, they represent an important psychological segment. Attitudes can be defined as predispositions to behave in certain ways in response to a given stimulus.[3]

For market segmentation purposes, personality is defined as long-lasting characteristics and behaviors of a person that shape how they cope and respond to their environment. Consumption of particular products or brands relates to consumer personality. For example, risk-seeking individuals are attracted to extreme sports and travel, and extroverts tend to dress conspicuously.

2. William R. Darden, W.A. French, and R.D. Howell, "Mapping Market Mobility: Psychographic Profiles and Media Exposure," Journal of Business Research, Vol. 7, No.8, 1979, pp. 51-74.

3. Martha Farnsworth, "Psychographies for the 1990s," American Demographics, July 1989, pp. 25, 28-30.

Social class segmentation identifies individuals based on a combination of socioeconomic such as education, occupation, income, family background, and attitudes related to these factors.

Lifestyle segmentation refers to the orientation that an individual or a group has toward consuming products, work, and play and can be defined as a pattern of attitudes, interests, and opinions held by a person. Lifestyle segmentation has become very popular with marketers, because of the availability of consumer data, measurement devices and instruments, and the intuitive categories that result from this process.[4] As a result, producers target versions of their products and their promotions to various lifestyle segments. For example, companies like All State Insurance are designing special programs for the good driver, who has been extensively characterized through a lifestyle segmentation approach.
5

Lifestyle analysis generally begins by asking questions about the consumer's activities, interests, and opinions. If a woman earns $100,000–$150,000 per year as an executive, is married and has two children, what does she think of her roles as a professional, a wife, and a mother? How does she spend her spare time? To what groups does she belong? What does she read? How does she use electronic devices? What brands does she prefer, and why? AIO (activities, interests, opinions) inventories, as they are called, reveal vast amounts of information concerning attitudes toward product categories, brands within product categories, and user and non-user characteristics.

Overall, psychographic segmentation tends to focus on how people spend their money; their patterns of work and leisure; their major interests; and their opinions of social and political issues, institutions, and themselves. While it can create intuitive groupings and useful insights into consumer behavior, it can also take significant research and effort to inform a more complex and nuanced approach to defining market segments.

Behavioral Segmentation

Consumers are divided into groups according to common behaviors they share. Typically these behaviors link to their knowledge of, attitude toward, use of, or response to a product.

The most common type of behavioral segmentation is around user segments. In 1964, the market researcher Twedt made one of the earliest departures from demographic segmentation when he suggested that the heavy user, or frequent consumer, was an important basis for segmentation. He proposed that consumption of a product should be measured directly to determine usage levels, and that promotion should be aimed directly at the heavy user. This approach has since become very popular. Considerable research has been conducted on "heavy users" of a variety of products. The results suggest that finding other characteristics that correlate with usage rate often greatly enhances marketing efforts.[6]

Other behavioral bases for market segmentation include the following:

- **User status:** Looking beyond "heavy users," it can also be helpful to identify segments based on a broader set

4. William D. Wells, "Psychographies: A Critical Review," Journal 0f Marketing Research, May 1975, pp. 196-213.

5. Joseph T. Plummer, "The Concept and Application of LifeStyle Segmentation," Journal of Marketing, January 1974, p. 33. David J. Reibstein, Christopher H. Lovelock, and Ricardo de P. Dobson, "The Direction of Causality Between Perceptions, Affect, and Behavior: An Application to Travel Behavior," Journal of Consumer Research, Vol 6., March 1980, pp. 370-376.

6. Ronald J. Frank, William Massey, and Yoram Wind, Market Segmentation, Englewood Cliffs, N.J.:Prentice-Hall, 1972. II.

of use patterns, such as non-users versus ex-users, or one-time users versus regular users. Smartphone and Android service providers examine usage patterns to create optimal plans and targeting based on specific sets of user needs: family plans, individual plans, no-contract plans, unlimited talk and data plans, and so forth. New car producers have become very sensitive to the need to provide new car buyers with a great deal of supportive information after the sale in order to minimize unhappiness after the purchase.

- **Purchase occasion:** This approach tries to determine the reason or occasion for purchasing a product and how it will be used. For example, airlines typically segment customers based on the reason for a passenger's trip: business versus personal travel. Someone traveling for business generally has different needs and wants from someone traveling for pleasure. A business traveler tends to be less sensitive about price and more focused on timing, location, and convenience.
- **Loyalty:** This approach places consumers in loyalty categories based on their purchase patterns of particular brands. A key category is the brand-loyal consumer. Companies have assumed that if they can identify individuals who are brand loyal to their brand, and then delineate other characteristics these people have in common, they will locate the ideal target market. There is still a great deal of uncertainty about the most reliable way of measuring brand loyalty.
- **Readiness:** Readiness segmentation proposes that potential customers can be segmented according to how ready they are to purchase a product: unaware, aware, informed, interested, desirous, and intend to buy. Using this approach, a marketing manager can design the appropriate market strategy to move them through the various stages of readiness. These stages of readiness are rather vague and difficult to measure accurately, but readiness may be a useful lens for understanding the customer's mindset and how to nudge them toward buying, particularly when an education process is required prior to purchase.

Decision-Maker Segmentation

This segmentation approach groups people according to who makes the purchasing decision in an organization or household. Typically there is a "primary buyer": the individual who makes the final decision about what to buy and allocates the budget for the purchase. Many purchasing decisions also involve "influencers." These are people who do not make the final purchasing decision, but they can influence the final choice about what to buy.

In families, for example, young children may be influencers in whether a parent buys Cheerios, Chex, or Fruit Loops. In companies, a department manager may be the primary buyer for a software product, but that manager's work team may influence product selection by helping evaluate options to determine which choice best fits their needs. Segmentation by decision-making role helps marketers understand who truly matters in the purchase process and home in on the individuals who matter most.

Segmenting Business-to-Business Markets

All of the segmentation approaches above apply to consumer markets. There are many similarities between consumer and business behavior, and therefore similar segmentation bases and variables apply. Common business segmentation approaches include:

- **Organization size:** segmentation according to large, medium, and small customers by revenue, by number of employees, by geographic reach, etc.
- **Geography:** organizing segments based on geographic location

- **Industry:** segmenting by the industrial sector an organization operates within—for example, manufacturing, retail, hospitality, education, technology, health care, government, professional services, and so forth
- **User status:** usage frequency, volume used, loyalty, longevity, products already in use, readiness to buy, etc. For example, longtime loyal customers with "strategic" relationships are often handled differently and receive preferable terms compared to newer customers.
- **Benefits sought:** grouping customers by common elements they look for in a product or purchasing experience
- **End use:** identifying segments based on how they plan to use the product and where it fits into their operations and supply chain. For example, an electric motor manufacturer learned that customers operated motors at different speeds. After making field visits and confirming these uses, he thought to divide the market into slow-speed and high-speed segments. In the slow-speed segment, the manufacturer emphasized a competitively priced product with a maintenance advantage, while in the high-speed market product, superiority was stressed.
- **Purchasing approaches:** organizing the market according to the way in which organizations prefer to make purchases; those preferences, in turn, determine how the seller builds the relationship with the customer and works the deal.

Combining Multiple Bases for Segmentation

Marketers may find it most useful to combine different bases for segmentation in order to create a richer picture of their target market. For example, a "geo-cluster" approach combines demographic data with geographic data to create a more accurate profile of a specific consumer. Geographic data combined with behavioral data can point companies toward locations where customers are clustered who demonstrate behaviors that make them a good target for a company's product. Overlaying demographic data onto lifestyle or behavioral segments helps marketers understand more about their target customers and how to reach them effectively with the marketing mix.

Any of these approaches may be the "right" approach for a given company and product set. It is also important for marketers to continually evaluate what's happening in their target market and to adjust their segmentation approach as customer attitudes, behaviors, and other market dynamics evolve.

5.4 SEGMENTATION DECISIONS

Learning Objectives

Explain the process of selecting an appropriate segmentation approach and deciding which customer segments to target for marketing activities

Now that you've learned about common segmentation approaches, how do you know when to apply them? When is geographic segmentation a better fit than demographic segmentation? When should you consider using both at the same time?

It comes down to your marketing goals: What are you trying to achieve?

This section explains the process of aligning your goals with your segmentation approach and target market.

Learning Activities

- Reading: Choosing a Segmentation Approach and Target Segments
- Case Study: eHarmony

Conducting a Market Segmentation

As you have seen, there are many different ways a company can segment its market, and the optimal method varies from one product to another. Good market segmentation starts by identifying the total market for the product: all the individuals who might conceivably need a product and have the means to purchase it. The total market for accounting software is different from the total market for Lego building sets or the total market for chewing gum for example.

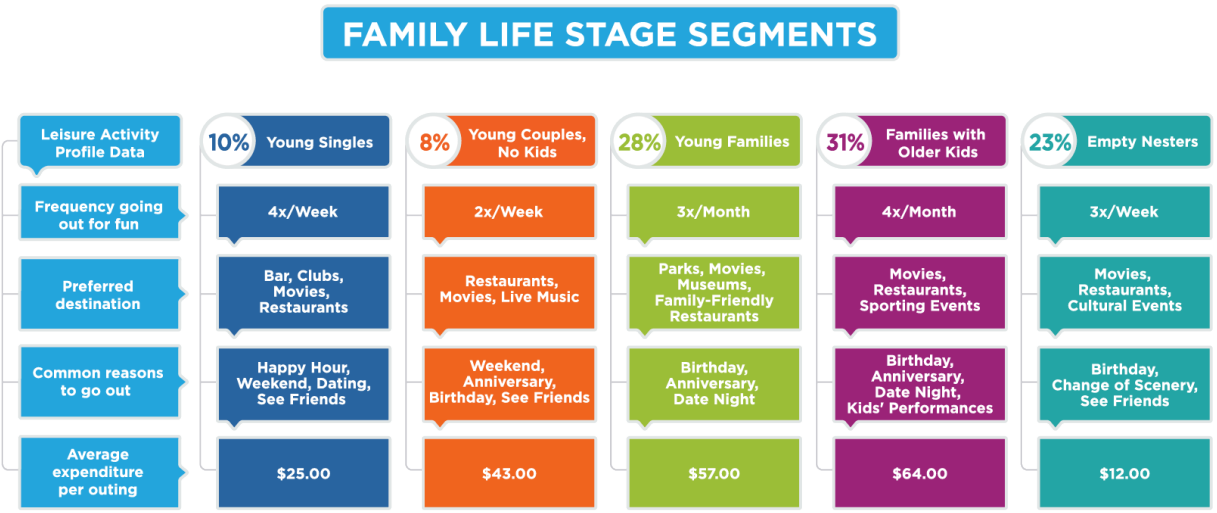
The next step is to identify marketing goals you want to achieve with the segmentation strategy. Do you want to generate awareness and sales in a local community that has never heard of your company? Do you want to get occasional customers to buy your product regularly? Do you want loyal supporters to dig deeper into their pockets and spend more of their money on your goods or services? Your segmentation approach should offer the best fit for your specific marketing goals.

Your marketing goals point you toward the segmentation criteria that will be most useful to achieve your marketing objectives. For example, if your goal is to build loyalty or increase frequency of purchase, behavioral segmentation is important to consider. If your goal is to broaden your customer base within a given region, then geographic segmentation may be useful.

As you identify segmentation criteria that will help you understand the total market and meet your marketing goals, you'll develop the basis for your segmentation approach. Next, you conduct research to collect segmentation data. Analyzing the market data can tell you whether your segmentation approach makes sense and where you may need to adjust the criteria to yield useful, valid market-segment data.

After conducting research and analysis of segmentation data, you should be able to diagram and profile different segments within your total market. A typical segmentation diagram could look like this:

SAMPLE MARKET SEGMENT PROFILES



Source: Lumen Learning. Choosing a Segmentation Approach and Target Segments, in Module 3. Lumen Publishing. (2016). Principles of Marketing.https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-choosing-a-segmentation-approach-and-target-segments/

Evaluating Your Segmentation Approach

An ideal market segment meets all of the following conditions:

- **It's possible to measure.** If you can't measure it, you can't collect data to know who the segment is or how to reach them.
- **It's profitable.** Segments must have the resources to purchase the product and be large enough to earn a profit for the company; otherwise they aren't worth pursuing.
- **It's stable.** Segments need to stick around long enough for you to execute your marketing plan.
- **It's reachable.** It must be possible for marketers to reach potential customers via the organization's promotion and distribution channel(s).
- **It's internally homogeneous.** Potential customers in the same segment must prefer the *same* product qualities and exhibit similar characteristics that are pertinent to the segmentation approach.
- **It's externally heterogeneous.** Potential customers from different segments have *different* product quality preferences and characteristics that affect their purchasing decisions.
- **It's responsive.** Segments should respond consistently to a given market stimulus or marketing mix. If they do not, then marketing efforts directed at them will not be well spent.
- **It's cost-effective.** Worthwhile market segments can be reached by marketing activities in a cost-effective manner. If too expensive to reach, then serving this segment will negatively impact profits.
- **It helps determine the marketing mix.** Ideally, when you have identified a market segment, you'll have insight into ways of shaping the combination of product, promotion, price, and place to fit that segment's

needs.

If your segmentation approach fails to meet any of these conditions, you should go back to the drawing board to refine it. If any one of these factors is not in place, your market segmentation may actually undermine the effectiveness of your marketing and business. But with all these factors in place, market segmentation will point you toward the most promising customer groups in your target market.

For example, if you're trying to launch a print services company in a large city, targeting "all business owners" isn't cost effective, and the individuals within this group are actually quite different. That means that no single marketing mix will be effective with everyone in this segment. Instead, you would be better served by researching types of businesses (by industry, size, etc.), geographic locations, and other relevant factors to help you identify and target logical segments with shared characteristics.

Keep in mind that market segmentation is an ongoing activity that needs periodic evaluation to ensure that the approach still makes sense. Since markets are dynamic and people and products change over time, the basis for segmentation must also evolve.

Selecting Target Segments

Once a practical segmentation approach is in place, marketing organizations typically follow one of two major segmentation strategies: a concentration strategy or a multi-segment strategy.

In the *concentration strategy*, a company chooses to focus its marketing efforts on only one market segment. Only one marketing mix is developed: the combination of product offerings, promotional communications, distribution, and pricing targeted to that single market segment. The primary advantage of this strategy is that it enables the organization to analyze the needs and wants of only one segment and then focus all its efforts on that segment. The primary disadvantage of concentration is that if demand in the segment declines, the organization's sales and financial position will also decline.

Rolex focuses on a single market segment—those who want a luxury watch—and is thus a prime example of the concentration strategy of market segmentation.

In the *multi-segment strategy*, a company focuses its marketing efforts on two or more distinct market segments. The organization develops a distinct marketing mix for each segment. They then develop marketing programs tailored to each of these segments. This strategy is advantageous because it may increase total sales with more marketing programs targeting more customers. The disadvantage is the higher costs, which stem from the need for multiple marketing programs that may include segment-specific product differentiation, promotions and communication, distribution/delivery channels, and pricing.

Selecting the target segments boils down the following questions, which connect to the "ideal segment" conditions listed above:

- Whose needs can you best satisfy?
- Who will be the most profitable customers?
- Can you reach and serve each target segment effectively?

- Are the segments large and profitable enough to support your business?
- Do you have the resources available to effectively reach and serve each target segment?

As you answer these questions with regard to the different market segments you have defined, you will confirm which segments are most likely to be good targets for your product(s). These segments become your target market—the object of your targeting strategy, marketing mix, and marketing activities.

Bumble was founded by Whitney Wolfe Herd in 2014 as a dating app that allows heterosexual women to take the lead when initiating conversation. Their app is helping to redefine societal gender norms.[1] What made them stand out was their BFF and Bumble Bizz mode that they released in 2016 and 2017 allowing users to seek out platonic and professional relationships as well as romantic ones. By focusing marketing efforts on these three distinct and unique needs, they were able to grow exponentially and the company is now worth $13B with its founder becoming a self-made female billionaire. [2]

Whitney Wolfe Herd was the co-founder of Tinder, so she had experience with the world of dating apps before founding Bumble and she knew the market well. Using her previous knowledge and experience she decided to create an app that did more than just host a place where people could find romantic interest and decided to challenge dating rules and norms. By allowing heterosexual women to make the first move, Bumble goes against the grain and empowers women to take the lead in a society where they are not expected to, which also benefits men by erasing the pressure of always having to initiate a conversation first. This method, however, is only applicable to heterosexual matches, for same-sex matches anyone can message first.

The Focal Project (CC BY-NC 2.0)
The Bumble app for iPhone

Bumble's BFF mode has arguably created a new market niche, where there was previously none. Intentions behind joining a dating app are not always as clear one might think, so assumptions occur which can discourage users from engaging with dating apps after encountering people with mismatched intentions. By clearly defining the intention behind joining the app and allowing for a safe space for the individual, Bumble has cleverly stretched historical perceptions of gender and relationships in a way that is benefitting both the user and the company.

There are all kinds of different relationships, and Bumble understands that very well. As an app that is meant to bring people together, they have considered other forms of relationship besides romantic and platonic ones, namely, business relationships. Networking can be a difficult aspect of the business world that not everyone is comfortable enough with or knows how to tackle, so Bumble Bizz provided a space for that. The users can complete a business-focused profile and choose filters that make browsing easier. Once they are done setting up their profile, they can choose people they would like to connect with, and if the other person is interested too, then they are matched. This way people in business who are looking for similar things can find and connect with each other based on their tailored needs.

Breaking norms about gender and relationships enables Bumble to benefit from a wider reach, allowing their users to find the best and the most comfortable way of utilizing the app for their needs. By considering gender sub-seg-

1. *Why Bumble?* (n.d.). Bumble. https://bumble.com/

2. *Bumble: Female-founded dating app tops $13bn in market debut*. (February 11). BBC News. https://www.bbc.com/news/business-56031281#:~:text=Bumble%3A%20Female%2Dfounded%20dating%20app%20tops%20%2413bn%20in%20market%20debut,-11%20February&text=Its%20Wall%20Street%20success%20made,led%20by%20a%20female%20founder

ments and addressing them separately and uniquely, they were able to compete with other dating and networking apps gaining market share and revenue growth.

The following video has Bumble's founder explaining Bumble Bizz when it first launched and her reasoning behind it.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=149#oembed-1

Room for improvement

Despite their innovative method of matching people for different reasons, they still use some traditional normative ways of defining relationships. An example of that would be that users are only able to find BFF matches of the same sex to "discourage misuse of the platform". The notion that different genders cannot be close friends without romance being involved is an old one. It is true that some people might misuse the BFF mode and have ulterior motives, but only allowing same-sex friendships are not only old-fashioned, they are also problematic as it was not designed with other genders besides the binary in mind. There is no denying that breaking with traditional perceptions of gender and relationships has benefitted Bumble greatly, but keeping up with continued social change will be a must for future growth.

5.5 TARGETING AND MARKETING MIX

Learning Objectives

Explain how targeting influences each element of the marketing mix

Segmentation helps you decide who your target customers are, while targeting helps you zero in on the best method for reaching them. Your targeting strategy helps you set priorities for making an impact on your target segments and on the market as a whole. As you'll see in this section, your targeting strategy also helps you determine which combination of product, promotion, place, and price—i.e., which marketing mix—will best fit the segments you are trying to capture.

Take a moment to watch the following video, which explains how the car company Toyota used segmentation and a new targeting strategy to improve a product (the first P of the marketing mix) and give it genuine family appeal.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=151#oembed-1

You can view the transcript for "Toyota Appeals to Kids.". (opens in new window)

Learning Activities

- Reading: Targeting Strategies and the Marketing Mix
- Case Study: Red Bull Wins the "Extreme" Niche
- Simulation: Segmenting the Ice Cream Market

Using the Marketing Mix to Reach Target Segments

Once target segments are identified, the marketing manager selects a targeting strategy that will be the best fit for reaching them. Targeted marketing enables the marketing and sales teams to customize their message to the targeted group(s) of consumers in a focused manner. The targeting strategy is where the marketing mix comes together to create the right offer and marketing approach for each target segment. A summary of common targeting strategies is provided in the table below.

Common Target Strategies

Strategy	Target Market	Example
Mass marketing	Everybody everywhere	Walmart, Tim Hortons
Differentiated marketing	Large groups within the total market	Costco, Sam's Club
Niche marketing	High penetration within smaller, specialized segments	Jollytails, Cows Ice Cream
Micromarketing	Individual customers or localized microsegments	Groupon

Source: Lumen Learning. Targeting Strategies and the Marketing Mix, in Module 3. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-targeting-and-the-marketing-mix/

Mass Marketing

Mass marketing, also called *undifferentiated marketing*, involves marketing to the entire market the same way. Mass marketing effectively ignores segmentation and instead generates a single offer and marketing mix for everyone. The market is treated as a homogeneous cluster. Mass marketing aims to reach the largest audience possible, and exposure to the product is maximized. In theory, this would directly correlate with a larger number of sales or buy-in to the product.

Mass marketing tries to spread a marketing message to anyone and everyone willing to listen. Communication tends to be less personal, as evidenced by common mass-marketing tactics: national television, radio and print advertising campaigns; nationally focused coupons; nationally focused point-of-purchase displays. The success of mass-marketing depends on whether it is possible to reach enough people, through mass-communication techniques and one universal product offer, to keep them interested in the product and make the strategy worthwhile. While mass-marketing tactics tend to be costly because they operate on a large scale, this approach yields efficiencies and cost savings for companies because it requires the marketing team to execute only one product offer and marketing mix.

For certain types of widely consumed items (e.g., gasoline, soft drinks, white bread), the undifferentiated market approach makes the most sense. For example, toothpaste (such as the brands Crest and Colgate) isn't made specially for one consumer segment, and it is sold in huge quantities. The manufacturer's goal is to get more people to select and buy their particular brand over another when they come to the point of purchase. Walk through any supermarket, and you will observe hundreds of grocery products, especially generic items, that are perceived as nearly identical by the consumer and are treated as such by the producer. Many mass-marketed items are considered staple or "com-

modity" items. People buy new ones when the old ones wear out or are used up, and mass-marketed brand loyalty might be the primary driver when they decide which replacement product to purchase.

Differentiated Marketing

A differentiated marketing strategy is one in which the company decides to provide separate offerings to each different market segment that it targets. It is also called multi-segment marketing. Each segment is targeted in a particular way, as the company provides unique benefits to different segments. The goal is to help the company increase sales and market share across each segment it targets. Proctor and Gamble, for example, segments some of its markets by gender, and it has separate product offerings and marketing plans for each: Secret (deodorant for women) and Rogaine (a treatment for hair loss) for men.[1]

When it is successful, differentiated marketing can create a very strong, entrenched market presence that is difficult for competitors to displace because of consumers' strong affinity for products and offers that meet the unique needs of their segment. A differentiated strategy can be a smart approach for new companies that enter a market and lure customers away from established players to capture share in a large overall market. Often, established companies become vulnerable to new competitors because they don't give sufficient attention to the perfect marketing mix for any given market segment.

However, differentiated marketing is also very expensive. It carries higher costs for the company because it requires the development of unique products to fit each target segment. Likewise, each unique product and market segment requires its own marketing plans and execution: unique messages, campaigns, and promotional tactics and investments. Costs can add up quickly, especially if you are targeting a lot of unique market segments.

Chinese Oreos

For a large company such as Kraft, the cost of this kind of marketing is well worth it, since its products are sold all over the world. An example of its differentiated marketing strategy are the many surprising variations of the famous Oreo cookie developed for the Chinese market. Consumers there can enjoy Oreos with cream flavors such as green-tea ice cream, raspberry-blueberry, mango-orange, and grape-peach. All of these Oreo formulations have been heavily market tested and are based on the unique preferences of Chinese consumers. [2]

Niche Marketing

Niche marketing (also called concentrated marketing) is a strategy that targets only one or a few very defined and

1. Markgraf, B. (2017, November 17). *Real-world examples of effective market segmentation*. Houston Chronicle. http://smallbusiness.chron.com/realworld-examples-effective-market-segmentation-60195.html.

2. Jou, E. (2012, October 1). *The wonderfully weird world of Chinese Oreos*. Kotaku. http://kotaku.com/5947767/the-wonderfully-weird-world-of-chinese-oreos.

specific segments of the consumer population. The goal is to achieve high penetration among the narrowly defined target segments. For example, the manufacturer of Rolex watches has chosen to concentrate on only the luxury segment of the watch market.

An organization that adopts a niche strategy gains an advantage by focusing all efforts on only one or a small handful of segments. All of their market analysis, product development, marketing strategy, and tactics concentrate on serving that select part of the market. When they do it well, this approach can provide a differential advantage over other organizations that don't concentrate all their efforts on one or more niche segments. Niche targeting is particularly effective for small companies with limited resources, as it does not require the use of mass production, mass distribution, or mass advertising. When a company is highly successful in desirable niche market segments, it can be very profitable.

The primary disadvantage of niche marketing is that it makes companies vulnerable to demand in the narrow market segments they serve. As long as demand is robust, the organization's financial position will be strong. But if something changes and demand drops off, the company has nothing to cushion it from financial hardship. Since the company has focused all efforts on one market (essentially putting all their eggs in one basket), the firm is always somewhat at risk. Such companies are especially vulnerable to small shifts in population or consumer tastes, which can greatly affect their position (for better or for worse). Large competitors with deeper pockets may choose to enter a market and use their size and resources to put smaller, niche players out of business. To insulate themselves from this type of risk, many companies pursuing a niche strategy may target multiple segments.

Ralph Lauren store, London

Luxury goods providers are a great illustration of the challenges of the niche marketing strategy. When economic recessions occur, luxury goods providers like Rolex, Chanel, and Armani routinely struggle financially because their narrow segment of "luxury" consumers has less disposable income. When fickle consumer tastes shift from Ralph Lauren to Dolce & Gabbana to Prada (and back again), the company's profitability can hang in the balance.

Micromarketing

Micromarketing is a targeting strategy that focuses even more narrowly than niche marketing. It caters to the needs of individuals (individual marketing) or very small segments in a targeted geography (local marketing). Micromarketing can be very powerful by giving consumers exactly what they want, when they want it. However, to achieve large-scale success with this approach, companies must figure out how to meet highly individualized needs efficiently and profitably.

Individual marketing is sometimes referred to as mass customization or one-to-one marketing. With this approach, companies offer consumers a product created to their individual specifications. For example, Build-A-Bear Workshop invites children to create their own custom stuffed animals. A child can select the type of animal, from teddy bear to unicorn, along with colour, size, clothing, and other accessories. Creators of handmade goods on Etsy.com take orders from buyers who may request variations on the individually crafted jewelry, clothing, toys, and

other items displayed on the Web site. In the following video, Etsy CEO, Chad Dickerson, explains what makes the company's approach unique.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=153#oembed-1

You can view the transcript for "Etsy Business". (opens in new window)

Achieving wide-scale success with individual marketing requires product providers to develop production strategies and an entire marketing mix that can ramp up as demand grows. Frequently this involves offering a baseline product with parameters customers can customize to fit their needs. For example, you can order custom M&M candies, selecting colours, packaging, and even custom-printed with words or images you select. The advent of digital print technologies has also made mass customization a viable targeting strategy for companies like Vistaprint and Sticker Mule. They provide custom print materials, stickers, decals and other printed products for businesses and individuals using designs created and uploaded by customers. Their primary messaging emphasizes custom products designed by and for individual customers, matching their unique needs and preferences.

Local marketing is a targeting strategy focused expressly on a small, clearly defined neighborhood or geographic area. Organizations using this technique strive to generate a strong local presence, and targets may include any person or organization within that small area.

Groupon and Shopify are excellent examples of local marketing. Both online services partner with local businesses to promote timely offers and special pricing for individuals living in a designated geographic area. Limited-time and limited-quantity deals may include restaurant meals, spa treatments, performances, recreational activities, lessons, hotel accommodations, and a wide variety of other local area products and services. These local marketing companies earn revenue when consumers purchase and redeem the special offers in their neighborhood or city. Another example is farm cooperatives and CSAs (community-supported agriculture shares), which virtually always use a local marketing strategy. They market locally grown produce and farm-fresh goods to people residing in the immediate community, and their ongoing goal is to increase local supply and demand for healthy, local, farm-fresh food and produce.

Applying the Marketing Mix to Target Segments

With any of the strategies described above, the marketing team must come together to develop a marketing mix tailored to the needs of each segment being targeted. This marketing mix is the unique combination of product, promotion, place, and price designed expressly to fit a designated market segment.

Source: Lumen Learning. Targeting Strategies and the Marketing Mix, in Module 3. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-targeting-and-the-marketing-mix/

Shaping the Marketing Mix

This course will explore each element of the marketing mix in further detail in other modules. However, the following questions can help you start down the path toward shaping the marketing mix to fit your target segments.

Product

- What would make the ideal product for your target segment?
- What special features or capabilities are critical for this segment?
- What unique problems does your product help this segment solve?

Promotion

- What are the best ways to get your target segment's attention?
- What do you want this segment to remember about your product?

Place / Distribution

- Where does this segment look or shop for your product?
- What is the best way to get your product to your target customers?

Price

- What price(s) are your target customers willing to pay for your product?
- How much is too expensive? How much is too cheap?

Considering each of these questions thoughfully allows marketers to generate ideas for altering the marketing mix to appeal to a target segment.

Example: Alumni Charitable Giving

Let's see how this works in practice. A university alumni organization embarks on a fund-raising campaign to generate funding for the strategic expansion of new and existing university programs. The baseline "product" this organization sells is charitable giving: an affiliation with the university, a tax deductible charitable donation, and the honour of contributing to a worthy philanthropic cause. For the coming year, the alumni organization decides to use a niche marketing strategy. Specifically, it will target alumni with significant upcoming reunions or years since graduation: 5 years, 10 years, 15 years, 20 years, 25 years, 30 years, and so forth. The organization chooses to tailor the marketing mix as follows:

- **Product:** The ideal product for these alumni isn't just a generic philanthropic donation. Instead, it is a giving opportunity that reflects their significant anniversary. For this reason, the alumni organization introduces a new "product" or type of donation opportunity: a class legacy fund that encourages alumni to contribute with other classmates to a common fund. When they do, they can select the areas they want their donation to benefit, such as scholarships, library, technology, and endowed professorship, etc.
- **Promotion:** Getting the attention of busy alumni scattered across the world is a challenge. People are most likely to pay attention when a message is coming from someone they know personally, and so the alumni organization decides to capitalize on classmate relationships. It recruits several well-connected people from each class to post on social media and send email messages to fellow classmates about an upcoming reunion as well as the legacy-fund donation opportunity. The email message asks people to share with other former classmates who may not have heard about the reunion and class legacy fund. Hopefully, this message begins to go viral, working through pre-existing networks to spread the word. The organization also sends a letter about the class legacy fund to older alumni who are less likely to be active with email or digital technology.
- **Place/Distribution:** As people learn about the class legacy fund, the alumni organization wants to make sure the donation opportunity is easy for anyone to act on. For this reason, they offer a variety of different ways to contribute: mail a check; dial a phone number; donate on a Web site using PayPal or a credit card; donate via phone using a mobile app. People can even come to the annual reunion activities and contribute to the legacy fund in person.
- **Price:** For a voluntary donation, "price" can be tricky. On one hand, the alumni organization wants to encourage donations of any size to the class legacy funds, no matter how small. On the other hand, it also wants to encourage alumni to consider making larger donations when possible. Based on publicly available income data, the alumni organization recognizes that most recent graduates have lower average salaries and disposable income compared to those who have been working

their fields for a decade or more. Acting on this information, it adjusts the range of "suggested donation" levels for each class. Recent alumni marking a 5-year anniversary are invited to contribute between $25 and $250. Alumni marking 10- and 15-year anniversaries are invited to contribute between $50 and $500 to class legacy funds. Alumni with 20 or more years see suggested donation amounts ranging from $150 to $2,500 or more.

Thoughtful consideration of the four Ps leads to a successful launch of the alumni organization's class legacy funds. Because the alumni organization has tailored the product, promotional strategy, placement, and pricing to the interests of the target segments, the effort is much more successful than the all-purpose, generic, "please donate to your alumni organization" campaign used in the past. In this example, wise targeting strategy works hand-in-hand with the marketing mix to yield better results.

Background

Red Bull is an Austria-based company started in 1987 by Dietrich Mateschitz that sells one product: an energy drink containing taurine (an amino acid) that's sold in a slim, silver-coloured 8.3-ounce can. The drink has been an enormous hit with the company's target youth segment around the globe. In the year 2018, Red Bull boasted sales of $1.06 billion USD in the United States alone[1], and has held the majority of the energy-drink market share for years, with a 35.3% market share in 2019 (Monster Energy, their closest competitor, held 25.4%).[2] From Stanford University in California to the beaches of Australia and Thailand, Red Bull has managed to maintain its hip, cool image, with virtually no mass-market advertising.

Red Bull's Targeted Approach to Marketing

"Red Bull. It gives you wings." Over the years, Red Bull has organized extreme sports events (like cliff diving in Hawaii and skateboarding in San Francisco), parties, and even music festivals to reinforce the brand's extreme, on-the-edge image. In 2012, they sponsored Felix Baumgartner's record-setting freefall from 128,000 feet:

(Note that the following video has limited narration. Access audio description using the widget below the video.)

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=155#oembed-1

You can view the transcript for Felix "Baumgartner's supersonic freefall from 128k' – Mission Highlights". (opens in new window)

Their grass-roots approach to reaching the youth market worked: "In terms of attracting new customers and enhancing consumer loyalty, Red Bull has a more effective branding campaign than Coke or Pepsi," said Nancy F. Koehn, author of *Brand New: How Entrepreneurs Earned Consumers' Trust from Wedgwood to Dell*. Red Bull's success has also gained attention (and concern) among beverage-industry giants, and some have tried to follow its lead: For a time Coke ran a stealth marketing campaign, packaging its cola in a slim can reminiscent of Red Bull and offering it to customers in trendy bars and clubs in New York City.

1. "Red Bull Energy Drink Sales U.S., 2015–2018." Statista. (September 25, 2019). https://www.statista.com/statistics/558082/us-sales-of-red-bull-energy-drinks/.

2. "Energy drink market share in the US in 2019." Statista. (2019, September 25). https://www.statista.com/statistics/306864/market-share-of-leading-energy-drink-brands-in-the-us-based-on-case-volume-sales/.

5.6 PUTTING IT TOGETHER: SEGMENTATION AND TARGETING

Remember Chumber, your new employer from the beginning of this module?

Now that you've learned something about segmentation and targeting strategy, let's return to the request your boss made for recommendations about whom Chumber ought to target and why.

Remember that Chumber's product is an automated, fully online system for checking the references of job candidates. Chumber's customers are other companies. After learning about market segmentation, you know that "all companies" are too broad to be a useful target market. Even on your first day of work, you can guess that marketing to every company you can find isn't going to be a smart strategy.

Looking back at the previous 4 years for employment by industry we can use StatsCan Labour data to help you identify which industries could see some of the biggest gains in employment in the coming years.

Canada Employment Both Sexes 15 years and Over[1]					
North American Industry Classification System (NAICS)[4]	2015	2016	2017	2018	2019
			Persons		
Total, all industries [5]	17,946.60	18,079.90	18,416.40	18,657.50	19,055.70
Goods-producing sector [6]	3,870.40	3,833.00	3,875.90	3,928.50	3,955.50
Agriculture [7]	294.9	289.2	279.5	277.2	287.6
Forestry, fishing, mining, quarrying, oil and gas [8][9]	354.9	326.8	329.6	340.6	332.5
Forestry and logging and support activities for forestry	49.2	48.1	48.2	51.9	47.2
Fishing, hunting and trapping	15.8	14.9	17.2	16.4	16.9
Mining, quarrying, and oil and gas extraction [8]	289.9	263.8	264.2	272.3	268.4
Utilities	137	137.2	132.6	144.8	139.1
Construction	1,371.20	1,385.00	1,409.30	1,437.50	1,463.10
Manufacturing	1,712.40	1,694.80	1,724.80	1,728.40	1,733.10
Durables	1,030.10	1,032.90	1,043.00	1,042.50	1,043.30
Non-durables	682.3	661.9	681.8	685.9	689.8
Services-producing sector [10]	14,076.20	14,246.90	14,540.50	14,729.10	15,100.20
Wholesale and retail trade	2,732.70	2,745.90	2,809.60	2,794.60	2,841.80
Wholesale trade	666.9	678.1	673.4	656.3	638.1
Retail trade	2,065.80	2,067.80	2,136.20	2,138.30	2,203.70
Transportation and warehousing	917.2	907.4	943.7	990.9	1,037.90
Finance, insurance, real estate, rental and leasing	1,102.90	1,127.00	1,171.30	1,173.90	1,208.40
Finance and insurance	791	808.1	831.4	828.8	847.6
Real estate and rental and leasing	311.9	319	339.9	345.1	360.8
Professional, scientific and technical services	1,365.80	1,393.70	1,448.80	1,466.80	1,555.70
Business, building and other support services [11]	760.6	766.4	756.6	777.1	776.3
Educational services	1,274.10	1,270.00	1,285.00	1,325.40	1,370.40
Health care and social assistance	2,292.30	2,339.30	2,383.20	2,406.70	2,489.70
Information, culture and recreation	750.6	782.4	789.3	786.9	774

Accommodation and food services	1,210.60	1,212.70	1,210.80	1,235.00	1,215.70
Other services (except public administration)	761.8	774.9	781.3	802.9	817.4
Public administration	907.4	927.3	961	969	1,012.80
Unclassified industries [12]	..	..	..	..	..

Source: Lumen Learning. Putting It Together: Segmentation and Targeting, in Module 3. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/putting-it-together-segmentation-and-targeting/

Segmenting by industry makes a lot of sense in this case because some industries clearly do more hiring than others. You decide that Chumber should focus on industries with the highest projected hiring increases in the next decade. Companies in growth industries will definitely get the most value from Chumber. Next, you want to understand more about which decision-makers in these companies will be the best targets for Chumber. Having just come through the hiring process, you know who is interested in reference checking: human resources professionals, job recruiters, and hiring managers. You email Ken, the Chumber HR person who handled your hiring process, to see if he can answer a few questions about how decisions are made in HR departments.

Ken is very helpful. Prior to Chumber, he worked in HR for a health care company and a consulting firm. He confirms that an HR manager or director of recruiting oversees the reference-checking process for new hires. This person would also be the primary decision-maker for a product like Chumber. Ken explains that the requirements for reference checking differ by industry. In health care, for instance, where people routinely handle life-and-death situations, reference checks are essential and thorough. Ken mentions a couple of features Chumber could add to fit the specific requirements of the health care industry. You take notes about product improvements that could be part of the marketing mix for this segment. When you're back at your desk, Ken sends you a list of Web sites, publications, and conferences where many HR recruiters go for professional information. This will be really useful when your boss wants to talk about promotion and place! You invite Ken out for lunch to thank him for his valuable input. You still have a lot to learn about Chumber and product marketing. But applying your knowledge about segmentation and targeting is giving you a good feel for how you might help the company succeed.

1. Statistics Canada. (2020). Table 14-10-0023-01 Labour force characteristics by industry, annual (x 1,000) DOI: https://doi.org/10.25318/1410002301-eng

CHAPTER 6: POSITIONING

Learning Objectives

- Explan why positioning matters.
- Define positioning and differentiation, and why they are important to marketing a product or service
- Explain the process of selecting a positioning and differentiation strategy
- Develop and evaluate positioning statements based on defined criteria
- Explain repositioning and the associated risks and complexities of repositioning a product or service
- Describe the process of implementing a positioning strategy

6.1 WHY IT MATTERS: POSITIONING

Why create a product or service positioning statement that aligns with a value proposition and a target segment?

Ever since you were small, you have loved special occasions and gatherings. It started with sprawling extended-family picnics when you were a child. From there, you graduated to bigger and more elaborate events: attending fairs and grand openings, crashing weddings and voter conventions, wandering through business expositions at the local convention centre. In fact, one of your favourite memories is of the time you sneaked into the legendary Consumer Electronics Show when you were visiting your cousin in Las Vegas. As far as you're concerned, the more people, the bigger the party and the better.

Now, as an adult, you've landed a job with Shindiggity, an events management firm that specialises in putting on conferences, trade shows, and events for industry associations and companies. You love meeting new people, travelling, and creating fun, memorable events.

Here's the challenge: Shindiggity is relatively small and new on the events management scene. Although events management is a growing area for business services, it's also a fairly crowded field. When you Google "events management company," you get 432 million results. Shindiggity is easily lost in the crowd.

San Diego Comic-Con 2011u2014Kermit and Gonza balloon costumes. Authored by: Conmunityu2014Pop Culture Geek. Located at: https://www.flickr.com/photos/popculturegeek/5991540917/. License: CC BY-NC: Attribution-NonCommercial

At Shindiggity's annual retreat, employees from across the company are divided into several groups, and each group is given the same task: How can we get Shindiggity to stand out from the competition?

You realise that the VP from your division has been assigned to your group and that this is a great chance for you to impress her with your creativity and initiative. You also want to help your company be successful. Right off, you jot down some questions to focus your thinking:

- What makes Shindiggity better than competitors? Is it the quality of events? The creative ideas? The amazing people? The way it uses technology to make things smoother and more efficient? Something else?
- Who do we need to talk to about Shindiggity, and what will make them decide to give us a try?
- How can we make sure they remember Shindiggity and what we stand for?

These are critical questions you need to answer in order to help your company (and, you think, impress the VP). At the core, they are questions about positioning and differentiation: What position do you hold in customers' minds? What position do you *want* to hold? How are you different in positive ways that make you stand out from the pack?

If Shindiggity can't figure out how to make a lasting impact in customers' minds, it won't win enough clients to stay in business. And, if it goes out of business, you'll be job hunting instead of continuing to do the work you love. On the other hand, if you come up with great ideas, you may help Shindiggity *position* itself effectively against competitors, which could lead to new business and—who knows?—to more job responsibility or a promotion for you. It's pretty obvious which scenario you decide to pursue.

6.2 DEFINING POSITIONING AND DIFFERENTIATION

Learning Objectives

- Define positioning and differentiation
- Explain the relationship between positioning and value proposition
- Explain the importance of positioning in executing segmentation and targeting strategy
- Define product positioning and differentiation, and explain why they are important to marketing a product or service

Positioning addresses an important question: What do you want to be known for?

Positioning provides the basic foundation for effectively marketing any product or service to a target audience. Positioning goes hand in hand with differentiation (in much the same way that segmentation and targeting work together). Differentiation is the process of figuring out what will make your product different and better in ways that matter to customers–and ways that are not easily replicated by competitors.

Positioning and differentiation offer something of a road map for marketing a product or service to the customers you're targeting. Read on to learn more.

Learning Activities

- Reading: Defining Positioning and Differentiation

What Makes You Different and Better?

Positioning is a strategic process that marketers use to determine the place or "niche" an offering should occupy in a given market, relative to other customer alternatives. When you position a product or service, you answer these questions:

- **Place**: What place does the offering occupy in its market?
- **Rank**: How does the product or service fare against its competitors in the areas evaluated by customers deciding what to buy?
- **Attitude**: How do we want customers to think about this offering and the benefits it offers them?
- **Outcomes**: What must we do to ensure the product or service delivers on the positioning we select?

Marketers use the positioning process to identify the distinctive place they want a product or service to hold in the minds of a target market segment. Effective positioning is always aimed at a specific target segment. In fact, positioning tailors the generally focused *value proposition* to the needs and interests of a particular target segment.

Positioning can be subtle and hard to detect, but it can also be easy to spot when it conforms to your perceptions as a consumer. Perhaps one of the following positions appeals to *you*: Volvo, for example, positions itself as a family of premium vehicles that are well designed for performance, innovation, and safety. Kia strives to position itself as delivering practical, utilitarian vehicles that offer high quality and value for the price. Cadillac is, well, the Cadillac of automobiles: powerful, luxurious, and catering to every need of its well-heeled drivers and passengers.

Differentiation is closely related to positioning. Differentiation is the process companies use to make a product or service stand out from its competitors in ways that provide unique value to the customer. Differentiation identifies a set of characteristics and benefits that make a product different and better for a target audience. Ideally, these qualities are things that 1) customers value when they are evaluating choices in a purchasing decision, and 2) competitors cannot easily copy. When both conditions exist, the offering is more attractive to target customers.

Differentiation is at work any time you're choosing between two products in the same category. For example, when you're buying a soft drink, why do you choose Coke, Pepsi, Sprite, or Mountain Dew? Is it because of the taste? The cost? The level of sugar or caffeine? Or is it something less tangible, like the way you just want to smile when you drink Coke, or you feel amped up when you drink Mountain Dew? These tangible and intangible qualities are what differentiate one soft drink from another.

Interconnected Strategies

Positioning and differentiation are connected in important ways. Effective positioning for a product or service is based on the differentiating characteristics or qualities that make the product/service better than the competition in the minds of the target segment. Positioning and differentiation are strategic activities: marketers work to create the desired position for a product or service in the market, rather than waiting for it to be created by customers, the public, or competitors. The end result of positioning is the successful creation of a market-focused value proposition: "This is the compelling reason why the target segment should buy the product." Positioning shapes key elements of the marketing mix: which features matter most in the differentiation of a product or service, what messages

to communicate about the offering, how to price it relative to competitors, and the role distribution might play in satisfying the customer.

To illustrate, think about North American retail chains targeting households as a target segment. The table below identifies the ways in which three large retail chains position themselves to attract customers and the key differentiators they use to set themselves apart.

Retail Positioning and Differentiators

Name	Positioning	Differentiators
Walmart	Wide selection of products people want, at the lowest prices	Wide selection; low prices
Target	Trendy, fashionable products at reasonable prices	Continually refreshed, on-trend product selection
HBC	Compliment HBC's assortment selection making it the shopping destination for exciting and stylish brands Canadians cannot get anywhere else	Broad selection of most-wanted, upscale brands; engaging shopping experience

Source: Lumen Learning. Defining Positioning and Differentiation, in Module 8. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-defining-positioning-and-differentiation/

Note that, in each case, positioning is based on factors that are important to the target segment(s) each retailer focuses on. Walmart customers are very brand-loyal because of the company's commitment to low prices and huge selection. Loyal Target customers love browsing the latest, on-trend apparel, accessories, and home fashions. HBC's shoppers appreciate a more elegant, integrated shopping experience with choice with exclusive brands. Each of these positioning strategies carves out a "niche" of the retail market that defines the particular, differentiating strengths of each chain in the minds of customers.

Positioning is essential for launching a new product or service, because it helps marketers and customers understand how the new offering fits into the set of available choices, and it makes a set of claims about why customers should consider it. Positioning can also be useful at any other stage of the product life cycle to help clarify what makes a product or service different from competitors and why people should prefer it.

Positioning Is a Statement

Positioning plays an important role for marketers in expressing how they will make an offering attractive to customers. It also helps customers become educated about the options available to them so they can evaluate and select the product or service that's the best fit.

Positioning is most often articulated as a positioning statement. A **positioning statement** is one sentence that concisely identifies the target market and what you want customers to think about your brand. This statement should include:

1. the target market
2. the brand name
3. the key points of differentiation
4. the product/service category or frame of reference in which you are establishing this market position

5. the reasons customers should believe the positioning claims.

Positioning statements should also be statements of truth. Effective positioning is credible and convincing, reflecting customers' actual experiences with the product or service. If a positioning statement does not reflect the customer's reality, the positioning will fail because it will not take hold in the minds of consumers. Likewise, positioning must be based on qualities that matter to customers as they consider which product/service to purchase. If positioning is based on characteristics or customer benefits that do not matter, customers will opt for other offerings that deliver what they care about. We will discuss positioning statements in more detail later in this module.

Same Offering, Different Positioning

Because effective positioning is always linked to a specific target segment, it is worth pointing out that the same basic product or service may be positioned differently for different market segments. When this happens, it is because companies recognize that their target segments are looking for different qualities when they make their purchasing decisions. Different positioning strategies for the same product enable marketers to communicate the value of the product or service more effectively to each target audience.

For example, the U.S. airline JetBlue caters to two "sweet spot" target segments: 2) "high-value leisure travellers" and 2) "mixed-wallet customers," who fly for both business and leisure. The airline's positioning for "high-value leisure travellers" focuses on attractively priced airfare and packages to fun vacation destinations, along with a comfortable flying experience. For "mixed-wallet customers," JetBlue positions itself as providing a competitively priced and convenient flying experience with features like expedited security and multiple fare options in case travel plans need to change. In both cases, JetBlue is selling air travel, but the positioning for each target segment is built around the differentiating qualities that make JetBlue particularly attractive to those segments.[1]

This compares to Canada's Porter Airline who "offers unbundled fares that give customers the option of choosing the products and services they find most valuable." What you're seeing really is an industry in general that is doing a much deeper job of segmenting the type of customers that are in the market and providing fares and experiences that are relevant to that specific segment. Similar to Jet Blue, Porter's initial segment focused in 2006 on Business travellers who are time and price sensitive. They also offered flying boardrooms and events for a unique set of services. In 2015, they extended to reach and market to leisure flyers primarily through direct marketing. [2]

1. http://skift.com/2013/03/20/why-jetblue-doesnt-target-road-warriors-and-doesnt-plan-to-anytime-soon/

2. https://strategyonline.ca/2018/07/17/porter-joins-competitor-airlines-with-new-entry-level-fare/

6.3 THE POSITIONING PROCESS

Learning Objectives

- Explain the concept of competitive advantage and how it relates to positioning strategy
- Differentiate between product features and benefits
- Explain positioning (perceptual) maps
- Identify common positioning strategies
- Explain the process of selecting a positioning and differentiation strategy

Positioning and differentiation are powerful tools to help you establish the market position you want for your product or service. In this section you'll learn how various positioning approaches work for different target segments and how to choose an effective positioning and differentiation strategy.

Learning Activities

- Reading: The Positioning Process
- Video: Starbucks Delivers Community and Connection

Getting to the Right Position

Arriving at the best positioning and differentiation strategy involves a process. The goal of the process is to design an identity that both confirms the value of the product, service, or brand in the customer's mind and explains why and how the offering is better than the competition. To reach that goal, marketers typically follow a positioning process comprised of the following five steps:

The Five Steps of the Positioning Process

1. Confirm your understanding of market dynamics
2. Identify your competitive advantages
3. Choose competitive advantages that define your market "niche"
4. Define your positioning strategy
5. Communicate and deliver on the positioning strategy

Step 1: Confirm Your Understanding of Market Dynamics

At the start of the positioning process, you need a firm understanding of your target market and answers to the following questions:

- In which product, service, or market category (also called the "frame of reference") do you plan to use this positioning?
- Which target customer segment is the focus for the brand's positioning?
- What criteria do these customers evaluate when they make a purchasing decision?
- What factors differentiate the brand from competitors?

If you don't have answers to these questions, you should consider conducting formal or informal marketing research to reach a better understanding of your target market and the market dynamics around it. Some marketers may have the time and resources to conduct extensive research, while others may need to rely on their own experience and anecdotal conversations with target customers. Either way, you'll remember that the customer is at the centre of the marketing mix, so knowing who you're targeting is the only place to start.

Step 2: Identify Your Competitive Advantages

A **competitive advantage** is some trait, quality, or capability that allows you to outperform the competition. It gives your product, service, or brand an advantage over others in purchasing decisions. Competitive advantage may come from any or all of the following:

- **Price:** An aspect of your production process or supply chain may enable you to offer comparable value at a lower cost than your competitors.

- **Features:** You may provide tangible or intangible features that your competitors do not, such as more colours, better taste, a more elegant design, quicker delivery, personalised service, etc.
- **Benefits:** You may provide unique benefits to customers that your competitors cannot match. Benefits are intangible strengths or outcomes your customers get when they use your offering. Examples include time savings, convenience, increased control, enjoyment, relaxation, more choices, feeling better about oneself, and being more attractive.

Create a list of the things that make you different from competitors in positive ways. Then, identify which of these factors are also competitive advantages: the influential factors that help you perform better in the marketplace and cause customers to choose your product, service, or brand over other options.

As a rule, it is relatively easy for competitors to undercut your pricing or match your features, so it is difficult to maintain a consistent competitive advantage in either of these areas. Market-leading products, services, and brands are most likely to differentiate based on benefits—the intangible strengths and outcomes that are harder for competitors to match.

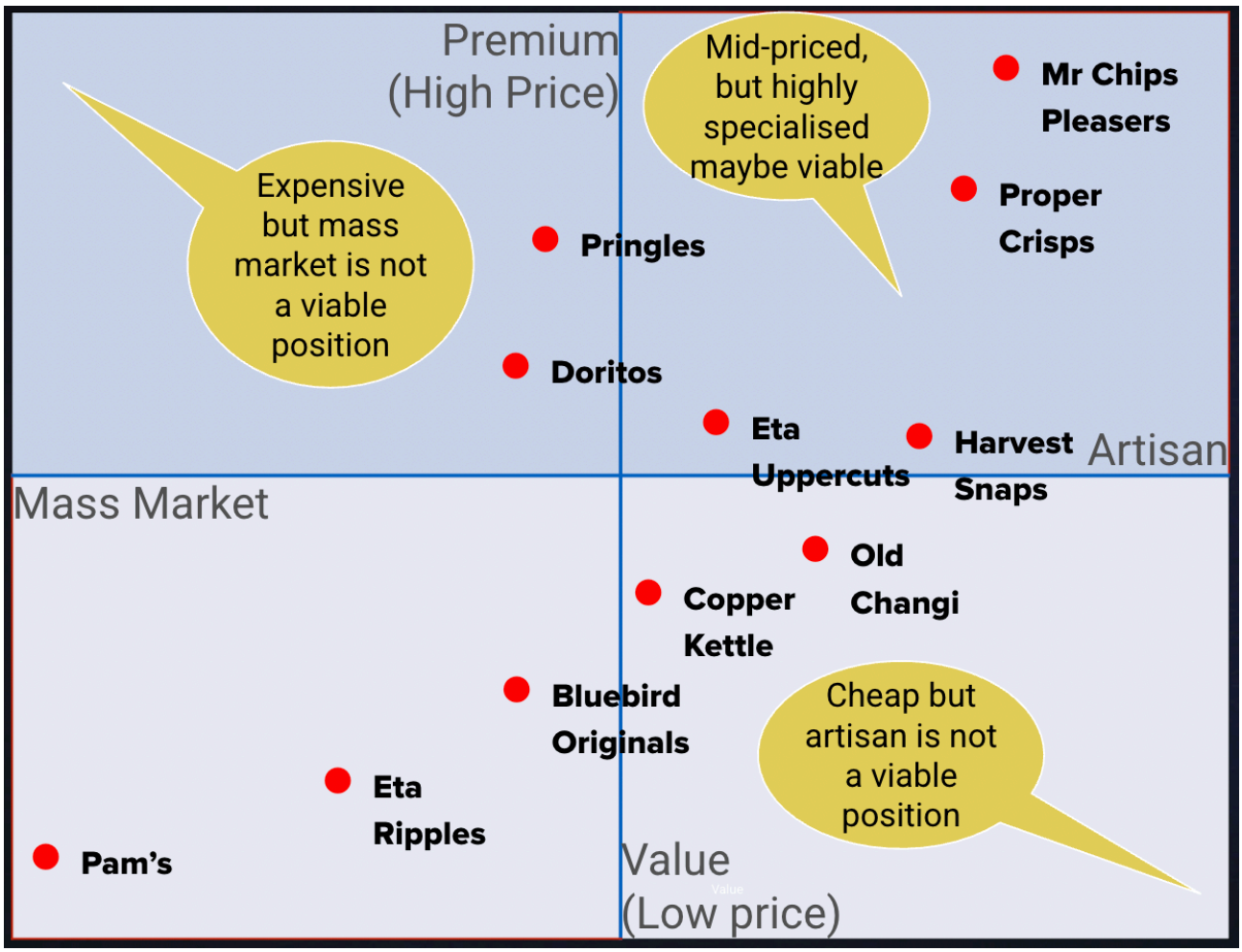
For example, many car companies achieve strong ratings in safety tests, but driving a Volvo provides an additional, intangible benefit for the driver, who *feels* safer due to Volvo's longstanding record and reputation for safety. A variety of theme parks in Southern California offer exciting rides and family fun, but only Disneyland's Magic Kingdom makes people feel like they're in *the happiest place on earth*.

You don't necessarily need a long list of competitive advantages, but your list should be substantive: it should include the things that **truly create distance** between your offering and competitors. Dig deep to identify the intangible benefits (https://smallbusiness.chron.com/bring-life-service-intangible-product-25799.html) your customers experience–or intangible benefits they *could* experience—from your offering that make it different and better than the alternatives.

Step 3: Choose Competitive Advantages That Define Your Niche

Your list of competitive advantages represents a set of possible positioning strategies you could pursue for your product, service, or brand. The next step is to examine how these factors fit into customer perceptions of your broader competitive set. Your goal is to pick a positioning approach that gives you a unique and valued position in the market that competitors are not addressing.

A **perceptual map** is a great tool for this step. Perceptual maps create a visual representation of how different competitors are positioned in the market based on key criteria that strongly influence customer decisions. Below are examples of two different perceptual maps. The first one maps potato crisp brands based on customer perceptions of price and production process. The second one categorises lifestyle programming on cable TV channels according to whether it is aimed at younger, edgier audiences versus older, mainstream audiences, and educational versus entertainment.



Positioning Map of Potato Chip snacks at NZ Supermarkets, July 2025

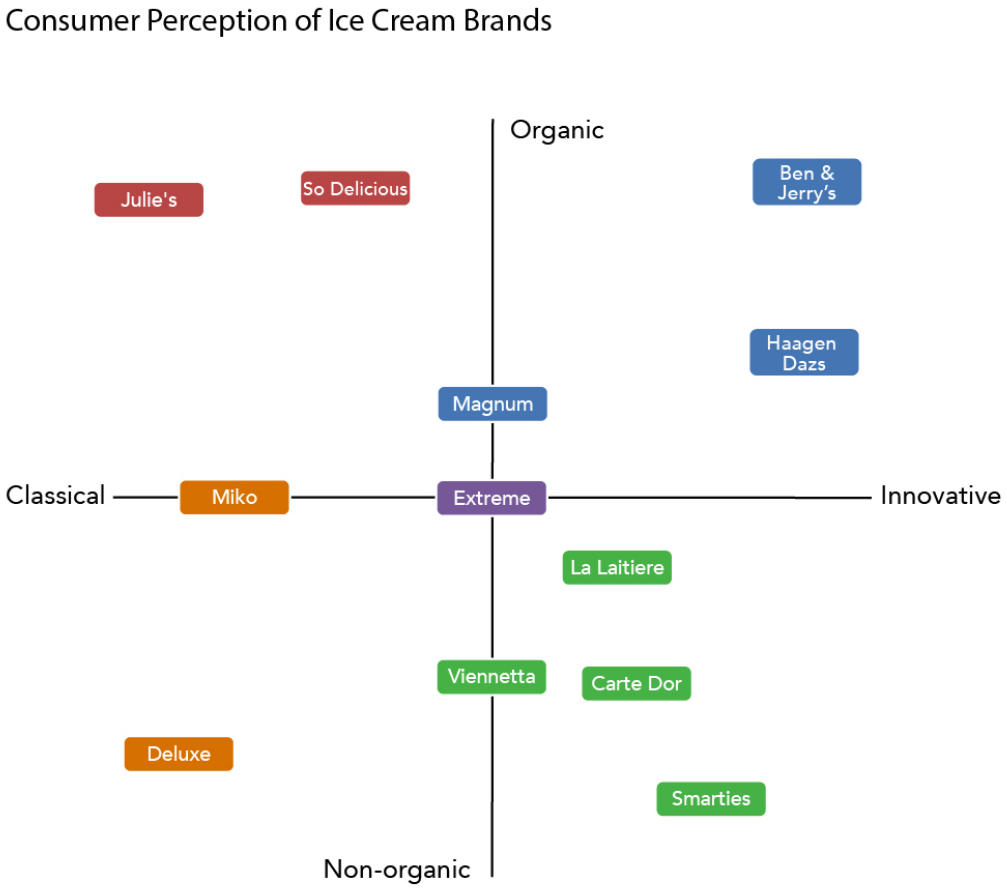
Marketers use these sorts of perceptual maps to identify gaps in the market; these, in turn, represent opportunities to fill a niche in the market that isn't being addressed. For example, the lifestyle programming map suggests that there are limited choices in the area of younger/edgier and educational spaces. This might be a good place to position a new cable channel or programming direction. On the other hand, there are already numerous established players in the younger, edgier, and entertaining space, so new entrants would have to overcome more competition to make an impact.

You can create a perceptual map similar to these by identifying customers' key criteria when deciding what to buy and setting these as the horizontal and vertical axes. Then, you can overlay competitors in the perceptual space where they seem to fit. You can even create multiple maps of the same market with different criteria on the horizontal and vertical axes to get a different view of how competitors are positioned. Perceptual maps are most robust when based on actual marketing research data; however, marketers can also create directional maps using their experience and anecdotal understanding of market dynamics.

With your maps in hand, look for areas with fewer competitors. These are the spaces where you are most likely to be successful in creating your own niche. Consider where your competitive advantages would help you fit well into these gaps; this will direct you to the strongest positioning opportunities for your product, service, or brand.

Give this approach a try: Suppose you are exploring whether to introduce your homemade, artisan-style ice cream to a wider audience, which will mean competing with national brands carried in local and regional grocery

stores. Looking at the following perceptual map, where are the gaps in which you could create a niche for your product? Who would be your closest competitors?



Source: Alexandre Anne, https://brandauditicecream.wordpress.com/2-customer-insight/

Source: Lumen Learning. The Positioning Process, in Module 8. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-the-positioning-process/

Your competitive advantage around a homemade, artisan-style product puts you on the upper half of the map. You would have to choose between more classic versus interesting and innovative ice cream choices. Based on your strengths and preferences, you can choose where to claim your positioning niche: Perhaps you stake your future on the classical side by introducing the most marvellous, pure, premium vanilla and chocolate ice creams your customers have ever tasted. Alternatively, you might choose to introduce an ice cream line that capitalises on interesting flavour combinations using local and seasonal ingredients, which would position you squarely in the innovative quadrant. Either approach could be a winning combination in a unique market niche.

If you choose not to create a perceptual map, an alternate approach is to list competitors and their competitive advantages. Then, add your own offering and competitive advantages to the list. Based on the alternatives available to customers, think about where there are gaps between what customers want and value most and what they can get from the choices available today. Identify where your competitive advantages can help you fit into these gaps, since they will be the most promising positioning approaches for you.

Remember to think creatively as you define your competitive advantages and choose those that will define your

positioning and market niche. You are more likely to succeed if you are also the first in the market to claim your positioning. You won't have to displace anyone else, and you can generate excitement by fulfilling a previously unmet need.

Step 4: Define Your Positioning Strategy

With your competitive advantages identified and information about how key competitors are positioned, you're ready to evaluate and select your positioning strategy. This is the decision you make about how you plan to position your offering relative to the rest of the field. How will you be different and better?

Hallmark = Caring shared

Hawaii = Aloha spirit

Guess Jeans = Sexy chic

Virgin Atlantic = Ultra cool fun

There are several common positioning strategies you should consider, shown in the following table:

Common Positioning Strategies

Differentiator	Positioning Strategy	Examples
Category Benefit	Position yourself as "owning" an important benefit and delivering it better than anyone else.	Volvo = Safety
Best fit for the Customer	Position yourself as an ideal fit for the customer's personality, style, and approach.	Red Bull = Extreme
Business Approach	Position yourself with a distinctive approach to doing business	Jimmy John's = Unbelievably fast TurboTax = Easy DIY
Anti-Competition	Position yourself as a preferred alternative to the competition	Apple = Think different Seven-Up = The Uncola
Price	Position yourself according to pricing: lowest cost, best value for the money, luxury or premium offering, etc.	Walmart = Lowest prices CheapOair = Cheap flights Old Navy = Affordable fashion
Quality	Position yourself according to a quality standard: high quality, best-in-class, or else reliably good quality at a reasonable price.	Arctic Brilliance Diamonds = Perfect cut Ritz-Carlton Hotels = Ultimate luxury

Source: Lumen Learning. The Positioning Process, in Module 8. Lumen Publishing. (2016). Principles of Market-

ing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-the-positioning-process/

Strong positioning is simple: it focuses on a single, powerful concept that is important to the customer. It uses your most promising competitive advantage to carve out the niche you will fill better than anyone else. Your positioning strategy places this competitive advantage within the context of your competitive set, explaining what distinguishes you from the competition. Perhaps you deliver an emotional benefit that your target audience doesn't get anywhere else (escape? balance?) Perhaps you are the hands-down best choice for a geeky, gearhead audience (bikers, coders). Perhaps you provide great customer service in a category where customer service is unheard of (cable TV, contractors).

Your positioning will become the "special sauce" that sets you apart from the rest. Spend some time creating it.

Step 5: Communicate and Deliver on Your Positioning Strategy

The next sections will delve deeper into this step, but don't underestimate its importance. Communicating your positioning strategy begins with creating a positioning statement and sharing it internally across the organisation to make sure that everyone understands how and where your offering will fit in the market. Your positioning builds on a competitive advantage, and it is essential for you to deliver on the expectations your positioning sets in customers' minds. You should design your positioning strategy to endure over time, while recognising that it can and should be adjusted from time to time to reflect changes in the competitive set, your target segment, market trends, and so forth.

If your positioning is based on being an ideal "lifestyle" fit for your target audience, for example, you need to demonstrate how your offering is attuned to the needs and experiences of this audience. This includes evolving as your target segment evolves. If your positioning is based on "owning" an important benefit like *security* or *reliability* or *delight*, then you should explore all the ways you can deliver that benefit better than any competitor who might try to imitate you.

The marketing mix provides the set of coordinated tools you use to execute on your positioning strategy. You might think of your positioning strategy as the tune you want your target segment to hear. The marketing mix is how you orchestrate and harmonise that tune, making it a memorable, preferred choice for your target customers.

What business is Starbucks really in?

"We wanted to build a third place between home and work," says Starbucks' CEO Howard Schultz, as he sits in one of his cafés, "at a time in America when people are hungry for human connection."

Watch the following video to learn how, from the beginning, Starbucks has positioned itself to be much more than just a seller of gourmet coffee. It has built its entire brand experience around a core positioning that offers "a sense of community" as much as coffee. It is selling a meeting place.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=359#oembed-1

You can view the transcript for "Starbucks the Brand". (opens in new window) (https://oerfiles.s3-us-west-2.amazonaws.com/WM+Marketing/Transcriptions/StarbuckstheBrand_transcript.txt)

6.4 DEVELOPING POSITIONING STATEMENTS

Learning Objectives

- Describe a standard structure for positioning statements
- Outline criteria for a strong positioning statement
- Recognize good examples of positioning statements
- Create a positioning statement aligned with a value proposition and target audience
- Develop and evaluate positioning statements based on defined criteria

After marketers work through the process of homing in on the best positioning strategy, they arrive at the final step: the positioning statement. The positioning statement reflects everything you've learned up to that point about how your product, service, or brand can best reach your target segment. As a document, it explains exactly how you plan to provide value to those target customers. In effect, it's a short, persuasive argument.

In this next section, you'll learn a simple formula for creating effective positioning statements. You'll also learn how to evaluate existing positioning statements and decide whether and how they might be improved.

Learning Activities

- Reading: Developing Positioning Statements

A Simple Formula

A **positioning statement** is one sentence that succinctly identifies the target market and spells out what you want them to think about your brand. This statement should include five elements:

1. The target segment
2. The brand name
3. The product/service category or frame of reference in which you are establishing this market position
4. The key points of differentiation
5. The reasons customers should believe the positioning claims.

The brand consultancy EquiBrand recommends the following straightforward formula for writing positioning statements:

> To [*target audience*], Product X is the only [*category or frame of reference*] that [*points of differentiation/benefits delivered*] because [*reasons to believe*].[1]

[2]

Four Alternative Positioning Strategies	
■ **Position and own the category benefit** – Volvo: Safety – Miller Lite: Great taste, less filling – Disney: Magic	■ **Position the product and the consumer** – U.S. Army: Be all you can be – Budweiser: For all you do, this Bud's for you – Pepsi generation
■ **Position how the company does business** – Burger King: Have it your way – The friendly skies of United – WalMart: Always the lowest price	■ **Position against the competition** – Avis: We're #2. We try harder – Seven-Up: The Un-cola – Apple: Think different

EquiBrand CONSULTING

Four Alternative Positioning Strategies to Consider

1. http://equibrandconsulting.com/templates/positioning-templates

2. Source: equibrand.com

The parts of the formula supplied by you (the marketer) are as follows:

- The **"target audience"** is a brief description of the segment you're targeting with this positioning strategy. For example, *young urban males*, *managing partners in law firms*, or *small business owners in the Pacific Northwest.*
- "**Product X**" is your product, service, or brand name.
- The "**Category or frame of reference**" is the category of products or services you're competing in. For instance: *spectator sporting events*, *virtual assistant services*, or *employer pension plans.*
- The "**points of differentiation/benefits delivered"** explain both what problem you solve and how you solve it in a different and better way than competitors. It highlights the competitive advantage(s) underpinning your positioning strategy. Be sure to explain not just what is different about you, but why customers care about that difference.
- The "**reasons to believe**" are any proof points or evidence that show your customers how you live up to your claims about how you are different and better.

Let's look at some examples of well-written positioning statements:

H & R Block continues to ask "Who is doing your taxes?" but has evolved their campaign positioning in 2019 to shift to who SHOULD be doing your taxes, under their umbrella theme of "Get what's yours?". [3]

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=364#oembed-1

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=364#oembed-2

Here are a few more examples of different brand positioning.

3. https://strategyonline.ca/2020/03/04/hr-block-makes-its-expertise-more-explicit/

Tide Laundry Detergent

Tide is the brand of laundry detergent that gets clothes their cleanest and keeps them looking new because "improved" Tide formulation powers out stains while keeping clothes from fading and fraying for the best value for families. [4]

Source: Lumen Learning. Developing Positioning Statements, in Module 8. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-developing-positioning-statements/

The Tide positioning statement identifies the target audience so specifically that it's easy to create a vivid mental picture of the customer. The problem Tide solves is very clear: getting clothes clean. This statement emphasises the product's competitive advantage in terms of cleaning power and superior formulation, while promising the valued benefits that customers enjoy when using this product.

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The onus here is on the brand to provide these concrete benefits around not "fading and fraying," but these are definite reasons to believe if indeed the product can deliver and a reason to believe.

Evaluating Positioning Statements

How do you know when a positioning statement is going to be effective? Obviously, positioning statements should contain all the elements in the formula above, since that information is needed to translate the positioning strategy into a well-developed marketing mix. There are other criteria you should look for, as well. For example, the following:

- **Is it tailored to the target market?** Too often, positioning statements either leave out the target segment, or else the entire approach isn't really suited to that unique group. If a positioning statement would work just as well if you plugged in a completely different target segment, then you probably haven't thought deeply enough about your target's unique needs and what will make them want your product. Or, you've defined your target segment too narrowly, in which case you should revisit whom you're trying to reach.

4. https://books.google.com/books?id=zEGhBgAAQBAJ, p. 115

- **Is it simple, focused, and memorable?** An overly complex positioning statement will be difficult to execute against because it lacks focus, making it unclear to deliver a clear message to the customer. Make sure it is very clear what problem(s) you solve. Use easy-to-understand words instead of jargon that muddles the meaning. If your statement is running long, consider trimming a few differentiators or benefits. It's actually very good to prune down to the essentials so your meaning is crystal clear. Make every word count!
- **Does it provide an unmistakable picture of your product, service, or brand?** Your positioning statement should work beautifully for you, but not very well for your competitors. If you can substitute any competitor's name for your own in the positioning statement—and it still sounds credible—then you need to refine your differentiators and competitive advantages. If you are going to own your market niche, it must be a place that no one else can easily occupy.
- **Can you deliver on the promise you make?** The positioning statement promises some benefits or outcomes to your customers. You must be able to live up to this promise consistently—otherwise, you'll lose credibility, and your offering will stand for something that's untrustworthy. If you can't live up to your promise, you need to take another, more realistic look at the offering's benefits and the customers' reasons to believe.
- **Does it provide helpful direction for designing the marketing mix and other decisions?** From the positioning statement, you should have a sense of what types of activities and messages are consistent with that positioning and support the brand you are working to build

6.5 REPOSITIONING

Learning Objectives

Explain repositioning and the associated risks and complexities of repositioning a product or service

Positioning is a powerful tool, but when you position a product, service, or brand, the world doesn't stand still. Market conditions change. Your customers and competitors change. You change.

Positioning should be designed to last. But for most offerings, you'll eventually need to revisit your positioning strategy and consider whether to make adjustments. This process has a very logical name: *repositioning*. In some ways, repositioning is more challenging than initial positioning because you're building on prior established work, trying to strengthen what's working and fix what isn't—it's a bit like remodelling an old house instead of building one from scratch. In this next reading, you'll learn more about repositioning, the associated risks and complexities, and the rationale for doing it in the first place.

Learning Activities

- Reading: Repositioning

When It's Time to Change Direction

After they are initially introduced to the market, products, services, and brands are constantly being repositioned as a result of changes in competitive and market situations. Repositioning involves changing the market's perceptions of an offering so that it can compete more effectively in its present market or in other target segments.

Generally it is good to consider repositioning when you see the need or opportunity to improve demand for the offering. Perhaps sales have slowed down, your target segment is getting smaller, or you've developed a new innovation you'd like to introduce to the product. Specific factors that can trigger the decision to reposition a product, service, or brand include the following:

- **Competition:** New competitors entering or leaving the market; competitors joining forces; a competitor's innovation that threatens to make your offering obsolete; competitive pricing strategies
- **Market environment:** Economic slow-down or recovery; changes in consumer confidence, the political climate, or social forces like the movement around social responsibility and sustainability
- **Consumer trends:** Changing tastes and preferences; evolving attitudes and behaviors such as how consumers use technology to learn about, acquire, or interact with your offering; new segments emerging as targets for your offering
- **Internal environment:** Changes in organizational leadership and strategy; acquisition or development of new technology; introduction of innovation that offers new competitive advantages and differentiators

The tax preparation service H&R Block provides a useful example. As technology-savvy millennials (people born between 1980 and 2000) began entering the workforce and caring about taxes, H&R Block saw that this sizable young segment overwhelmingly preferred TurboTax and other technology-based, do-it-yourself tools, rather than hiring tax professionals like H&R Block. Even after introducing its own online tax preparation tools, H&R was not able to capture this market segment. With its competitive advantage undermined by technology and its established customer base getting older, H&R Block knew that if it wanted to survive, it had to figure out how to appeal to younger taxpayers.

In 2012 and 2014, the company invested in repositioning campaigns to alter the company's image and appeal to millennials. The campaigns combined satirical humor, social media, and social responsibility (in the form of charitable donations) to get millennials' attention and create buzz around the H&R Block brand.[1] The following H&R Block video ad from the 2012 "Stache Act" campaign makes the case for a fictional Million Mustache March on Washington to alter the tax code to include a $250 deduction for facial hair grooming materials:

1. http://www.theguardian.com/money/us-money-blog/2014/mar/05/hipsters-taxes-brooklyn-ads-hrblock

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=368#oembed-1

You can view the transcript for "Stache Act Campaign Ad – The Oval Office". (opens in new window)

The Repositioning Process

The repositioning process is very similar to the original positioning process, but it has a different starting point. The original positioning process focuses on creating a new position or market niche for an offering that wasn't there previously. The repositioning process, on the other hand, evaluates the established position of a product, service, or brand and focuses on how to alter the positioning–and, with positioning, market perceptions.

To change market perceptions, repositioning may involve changes in the tangible product or in its selling price, but this is not always required. Often the new positioning and differentiation are accomplished through changes in the promotional message and approach. It is very common to see companies launch marketing campaigns focused on repositioning a product or service, but few, if any changes, made to the product or service itself. These repositioning efforts often focus on trying to get a current target segment to take another look at a product or service and see it with a new perspective. Repositioning often aims to shift market perceptions in ways that make an offering more appealing to a broader swath of the market.

An important ongoing part of repositioning is to monitor the position of a product, service, or brand over time. This is necessary in order to evaluate what is working or not working about the current position and generate feedback to inform future positioning strategies. A product position, like the score in a ball game, may change readily; keeping track and making necessary adjustments is very important.

Repositioning Risks and Pitfalls

While repositioning is quite common, it carries risks and complexities that marketers must consider. Repositioning happens after initial market perceptions have already been established. Effective repositioning isn't just creating something new. Instead, it is trying to preserve what is good from the existing market positions and build or shift thinking toward something new. Repositioning offers the opportunity to make something new and better than what you had previously, but it also has the potential to undermine or weaken market perceptions.

Repositioning must always consider carefully what has come before, as well as what's ahead. In the repositioning process there's inevitably baggage: residual issues left over from earlier positioning work, which is what led you to the point of needing to reposition. Your product, service, or brand has a history, and people have memories: some people remember what the offering used to stand for, and they will try to figure out how the new positioning fits with their perceptions. Customers, employees, and other stakeholders will have opinions–sometimes very vocal ones–about whether the new positioning is better or worse, effective or ineffective. All of this represents a potential minefield for marketers. Despite these challenges, repositioning can also be very rewarding if you are successful at reshaping perceptions and creating a more powerful, meaningful product, service, or brand.

As you consider repositioning opportunities, try to avoid the following common pitfalls:

- **Insufficient research:** Marketing research should inform your choices about how to shift positioning in

order to improve market perceptions of your product, service, or brand. You should also conduct research to help you understand how your target segment will react to the repositioning, so you're not caught off guard by adverse reactions.

- **A bridge too far:** It can be tempting to get wild and crazy with repositioning, especially if you're trying to freshen things up. While this strategy can work, sometimes marketers go so far in the new direction that customers no longer believe the claims. Their perceptions of the offering can't accommodate the new message or image, and the offering loses credibility.
- **Underestimating "back to basics":** Sometimes repositioning is undertaken because the target segment isn't sure what a product, service, or brand stands for. Instead of trying to infuse more new ideas and new meaning, marketers are sometimes better served by stripping positioning down to its bare essentials of competitive advantage, benefit, and message. Reinforcing the simple "basics" can be very powerful: this is what customers usually care about most.
- **Overpromising:** When faced with strong competitive threats, it can be easy for repositioning to overpromise benefits that a product, service, or brand is really ready to deliver. This can be disastrous because it creates customer expectations that the organization cannot live up to. Rarely does this end well.
- **Confusing positioning:** Repositioning can introduce confusion between the old positioning and the new, especially if they seem to contradict each other. Repositioning needs to offer a clear message for customers; otherwise they are not sure what to believe.

The risks and pitfalls of repositioning are evident in the example of United Airlines and its "Rising" campaign. For decades, United positioned itself as a passenger-centre carrier providing great service embodied in the iconic tagline "Fly the Friendly Skies." Seeking a change in the late 1990s, United introduced a new positioning approach it called "Rising." Their strategy was to to highlight common frustrations with air travel and make bold promises about how United Airlines provided a different, better level of service. However, the airline was unable to operationalize the changes needed to live up to these promises. The company abandoned the campaign after just two years because the positioning–and the airline–had lost credibility with the customer.[2]

Repositioning Success

Despite the risks, repositioning can be wildly successful when it is handled effectively. A good case in point is the NGO's within the Red Cross. In 2009, the globe had sunk into the Great Recession, and the American and Canadian Red Cross was also feeling the pain. With its budget relying heavily on charitable donations, and with North Americans giving less due to the recession, the nonprofit organization faced a budget deficit going into the fourth quarter.

For many nonprofit organizations, the last quarter of the year is prime fundraising season, since people open their wallets for holiday giving. Up until 2009, this was not the case for the Red Cross; 2009 marked the 100th anniversary of the Canadian Red Cross. North Americans gave generously to the organization during disasters, but it wasn't people's top choice for holiday giving. Seeing an opportunity in this apparent disconnect, the American Red Cross engaged a creative agency to help repositioning the organization in the minds of potential donors.

Research confirmed that the competitive advantage of the American Red Cross, in consumers' minds, was pro-

2. http://www.wsj.com/articles/SB94719666565398524

viding help in times of disaster. The organization's then-current positioning of "Change a Life, Starting with Your Own" shared a powerful emotional message, but it did not reinforce the competitive advantage or create a sense of urgency around giving. The repositioning effort developed a new positioning direction expressed in the tag line "Give the gift that saves the day." The Canadian Red Cross launched the "We Answer" campaign.

This message reinforced the powerful role that the Red Cross plays in times of disaster and invited Americans to be part of that important work. With words like "give the gift," it also implanted the idea of the ARC as a great recipient for holiday giving. The following video was created as part of the 2009 integrated marketing campaign that introduced this new positioning.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=368#oembed-2

The repositioning was a resounding success. Income increased more than 5 percent compared to prior years. People who saw ads associated with the repositioning campaign were twice as likely to donate as people who didn't see them. The fourth quarter of 2009 was one of the strongest since 2000. Brand awareness increased by 6 percentage points. The benefits didn't stop in 2009, either. Building on their success, the ARC expanded the repositioning campaign in 2010. By the end of the year, income had increased 26 percent over 2009, and the average gift size increased 43 percent.[3]

In Canada, a year later the Canadian Red Cross received a record corporate donation from its largest donor, Wal-mart Canada in light of domestic disasters.

These impressive results reveal the power of repositioning when it is handled well.

We also reviewed the evolution of Amazon's business model and positioning statements earlier.

3. https://russreid.com/2013/02/american-red-cross-integrated-marketing-campaign/

6.6 IMPLEMENTING POSITIONING STRATEGY

Learning Objectives

- Adjust the marketing mix to deliver on positioning strategy
- Develop promotion strategy based on new positioning
- Measure effectiveness
- Describe the process of implementing a positioning strategy

With your new positioning strategy and a well-formulated positioning statement, you are poised to take action.

But . . . how exactly?

What comes next is more familiar than you might think: You head back to the fundamentals of the marketing mix. The positioning strategy helps guide your adjustments to product, price, place (distribution), and promotion, so that you can effectively reach and shape the perceptions of your target market segment(s). In this section you'll learn how to do this.

Learning Activities

- Reading: Implementing Positioning Strategy

Putting Positioning into Practice

The positioning strategy, embodied in a strong positioning statement, is a touchstone for marketing and brand-building activities as marketers work to align everything they do in support of this core idea. In simple terms, this means aligning the positioning strategy with the marketing mix.

Positioning statements provide a relatively easy way to check whether some aspect of the marketing mix is on target or off target: if a particular marketing message or activity reinforces the positioning statement, it's probably consistent with your goals for reaching a target segment. If a marketing activity doesn't reinforce the positioning statement, it will likely create confusion among customers about what your product, service, or brand represents.

What does this mean in practice?

As you consider what you're doing in each area of the marketing mix, think about what your positioning statement is communicating to customers. Then ask yourself how each part of the marketing mix is helping you deliver on the expectations you are setting with those customers.

Source: Lumen Learning. Implementing Positioning Strategy, in Module 8. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-implementing-positioning-strategy/

- **Product:** Is your product, service, or brand capable of delivering everything your positioning statement claims? Are any competitors doing it better than you? How should you adjust your offering to ensure that it lives up to the promises?
- **Price:** When it comes to pricing, how are you positioning your offering relative to competitors? If pricing is part of your positioning strategy, is your offering well aligned with the price you're asking customers to pay? What pricing strategies should you consider to compete more effectively? (More on this in the Pricing module.)
- **Place (Distribution):** Are any distribution-related themes like convenience or availability part of your positioning strategy or competitive advantage? If so, what are you doing to ensure that you can live up to what you promise? How are you communicating your new positioning approach to distribution and channel partners, and how does it impact them? (More on this in the Place module)
- **Promotion:** How are you translating your positioning strategy into messaging and actual communications with your target audiences? What behavioural shift are you trying to create as you launch your new positioning? Where and how do you need to alter existing materials to make them consistent with the new positioning (e.g., website, print, ads, social media, marketing content, sponsorships, events, etc.)? What types of campaigns will you use to introduce the new positioning? Which communication tools will be most effective at reaching

target audiences, and what are you doing to coordinate marketing messages and activities across different channels?

How a Positioning Statement can impact Marketing Mix. To [target audience], Product X is the only [category or frame of reference] that [points of differentiation/benefits delivered] because [reasons to believe].

[1]

Persistence Pays

Implementing a new positioning or repositioning strategy is not a simple task. It takes time and effort to bring all the pieces together, to update the old and create the new. Implementing a positioning strategy resembles turning a ship: At first, the manoeuvre is slow and deliberate. But once you've turned and charted the new direction, momentum picks up.

To be sure your positioning activities are having the effect you want, look for ways to measure the impact of your efforts. Depending on your goals and implementation activities, what you measure can vary, but may include one or more of the following:

- Sales/revenue
- Number of new/returning customers
- Average spending per transaction
- Brand/product awareness or perceptions

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1. Source: equibrand.com: http://equibrandconsulting.com/templates/positioning-templates

- Favourability toward product/service/brand
- New leads or inquiries from inside and outside your target segments
- Website traffic
- Social media engagement
- Earned and organic media awareness
- Customer satisfaction
- Return on investment for marketing campaigns and other activities

Above all, don't forget to check in with customers directly to monitor their response to the new positioning efforts. In all likelihood, some things will work and things won't work as you introduce the new direction. Having a direct line to customers for constructive feedback and recommendations can help you identify potential improvements and adjust course early to strengthen your impact and results. Social media can be an effective and inexpensive way to generate a feedback loop.

Before leaving the topic of implementing positioning, another application of positioning strategy deserves attention. For large, complex organisations with numerous products and serving diverse markets and customer types, effective positioning is crucial. It's the only way to ensure that the organisation can deliver a coherent message and unique value to each target segment.

Example: Tyco Integrated Security

What does this look like in practice? Let's examine how the electronic security company Tyco Integrated Security (TycoIS)(https://www.tycois.com/) uses positioning.

Tyco Integrated Security is a B2B company that sells electronic security products, installation, and services in the U.S. and Canada. They recently merged with Johnson Controls. TycoIS produces a variety of security-related products and services that can be used across many different industries and companies of all sizes. When you think about the security-related needs of different kinds of businesses, you realise that their needs vary widely. A small business needs systems and processes that are affordable and manageable by a single person or a small team. Large companies have extremely complex needs around physical, financial, personnel, supply chain, and information security. Needs also differ by industry. For instance, companies in the food business are concerned about food safety, handling, protection, and complying with regulations and inspections in order to stay in business. Most other industries have similarly specialised needs.

Company-Level Positioning

TycoIS must communicate at several different levels in order to convince people that it's the right partner for their business. Operating at the highest level, company-to-company, the following statement explains TycoIS's company-level positioning:

> We help companies protect their employees, customers, facilities, and operations from internal and

external threats, and allow business to work smarter through enhanced security management and information management solutions.[2]

This positioning statement from the company's Web site fits our positioning formula quite nicely, except for one thing: the defined target segment is "companies." Is it possible to market anything effectively to all companies everywhere? No. This target is too broad. But it is a great starting point for businesspeople looking for security systems; it encourages them to delve deeper.

Two-Tiered Segmentation

To divide up "all companies" into manageable chunks for marketing purposes, TycoIS uses two different segmentation schemas at the same time: segmentation by 1) organisation size and 2) industry. Figure 1, below, illustrates how Tyco mixes these schema together:

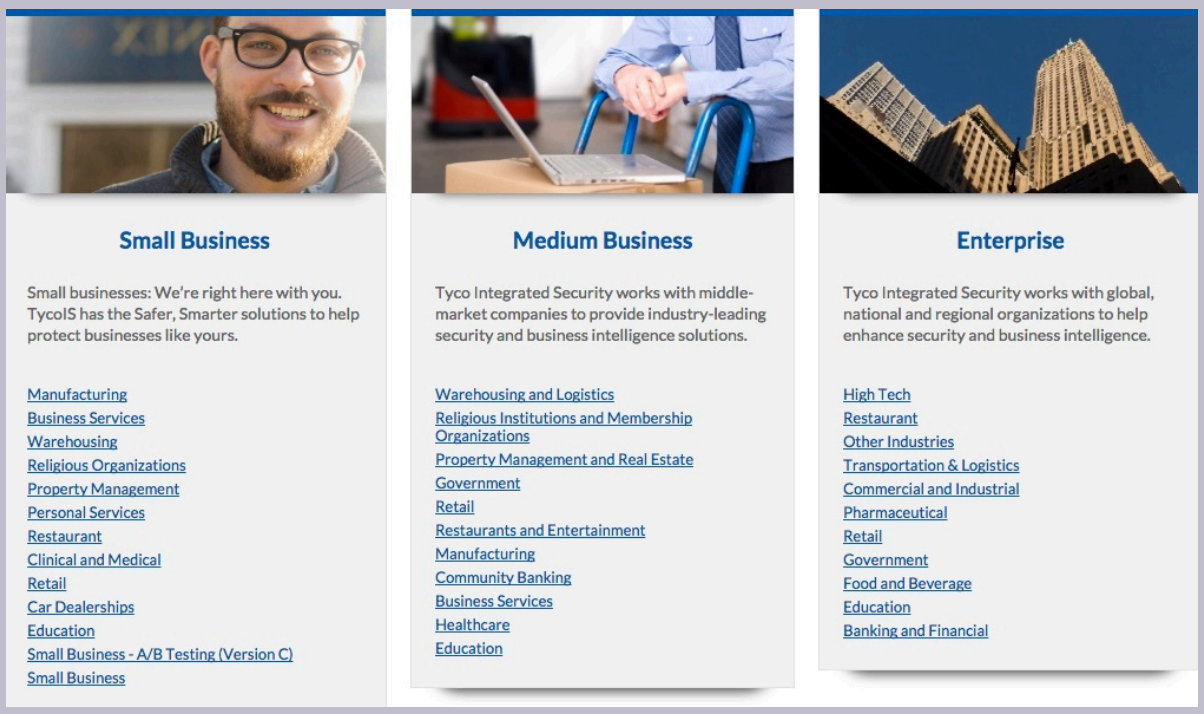

Figure 1. Source: Lumen Learning. Implementing Positioning Strategy, in Module 8. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-implementing-positioning-strategy/

Given the separate messaging for each business size, it's clear that TycoIS has developed positioning around three unique market segments: small businesses, medium-sized businesses, and large enterprises.The "Small Business" positioning uses a tone of personal reassurance: "We're right here with you."

2. https://www.tycois.com/

And, going a level deeper, "We offer affordable products and services to help you, as a small business owner, protect your investment."The "Medium Business" positioning mentions "industry-leading" solutions—a term that resonates with these organizations, which are striving to grow and become leaders. The "Enterprise" positioning emphasises TycoIS expertise working at the global, national, and regional levels. It also offers to "help enhance" security and business intelligence, rather than "provide" them. This subtle wording is wise: large, enterprise organisations tend to have a lot of legacy infrastructure and processes already in place, as well as in-house security expertise. With this positioning, TycoIS suggests that it will be an expert, helpful partner to complement and strengthen the security large companies already have.

Industry-Specific Positioning

Within each business-size segment, TycoIS has identified the common types of industries it works with. For each of these industries, TycoIS has unique positioning to convey that 1) we speak your language, 2) we understand your needs, and 3) we have a great combination of solutions just for you.

Figure 2. Source: Lumen Learning. Implementing Positioning Strategy, in Module 8. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-implementing-positioning-strategy/

Figure 2, above, illustrates how TycoIS positions its offering for medium-sized businesses in the restaurant and entertainment industry. For this target segment, the company clarifies the category of security solutions it offers: physical security, theft protection, food inventory and protection for restaurants, nightclubs, and other entertainment venues. The messaging highlights TycoIS's competitive advantage of offering industry-specific security specialists and business insights, on top of all the systems and gadgets

it provides.This detailed, industry-specific positioning flows across each of the company-size segments, effectively communicating the following: "Regardless of your company size or industry, TycoIS has relevant experience and familiarity with your security challenges and needs." On the company's website, it is easy to browse the matrix of company types and industries to find the area that matches your business. Then, as you dig deeper, TycoIS's attention to target-segment positioning ensures that you will find information that speaks to your unique needs.

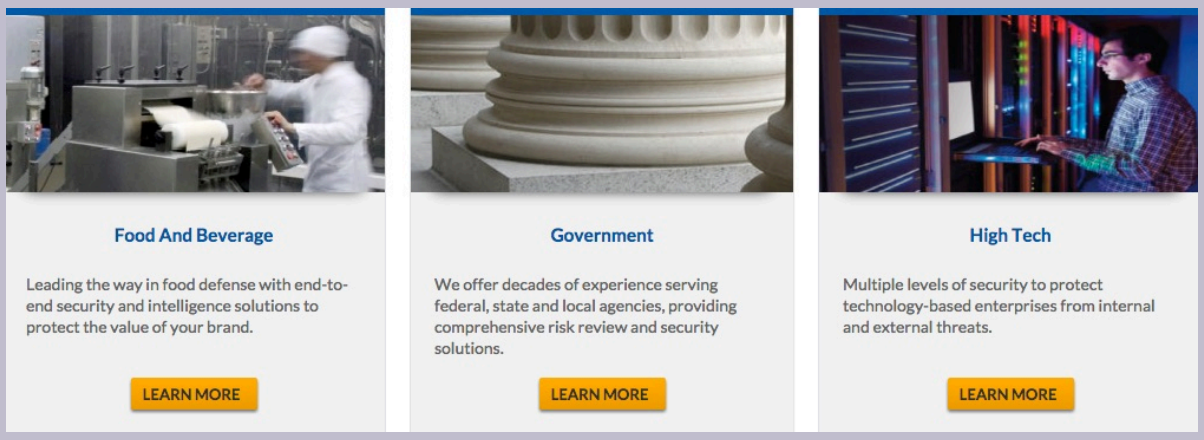

Figure 3. Source: Lumen Learning. Implementing Positioning Strategy in Module 8. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-implementing-positioning-strategy/

It's mind-boggling to imagine all the positioning-strategy and messaging work that has gone into this type of marketing effort. In all, TycoIS actively targets 35+ different business segments! Not every organization needs this kind of detailed targeting and positioning schema. But many organisations, both smaller and larger than TycoIS, find that this highly targeted use of positioning strategy is an effective way to do business and support their ongoing focus on customer needs.

6.7 PUTTING IT TOGETHER: POSITIONING

Positioning Your Way Out of Obscurity

Let's get back to the challenge that started this module: how to position and differentiate a company in a crowded field of competitors.

You'll recall that you have a swell job at a newish events management company called Shindiggity. The company is struggling to find ways of setting itself apart in a crowded and growing field. At the company retreat, you have an opportunity to suggest some strategies that can help Shindiggity stand out from the competition. You also have a chance to impress your divisional VP, who is assigned to the same brainstorming and breakout group as you.

Now that you know something about positioning and differentiation, you step forward to lead your group through the positioning process.

Step 1: Confirm Your Understanding of Market Dynamics

Once your breakout group gets going, you start with a discussion about what you're all seeing in the market generally. You ask your VP, to share perspectives from the executive team about where it plans to target growth for the company in the coming year, and whether there are particular industries or segments it plans to focus on. She says that the company has seen particular growth potential in the health care and pharmaceutical industries. Shindiggity has several clients in these segments already, and you know from your experience with these events that they can be quite technical and specialized.

In fact, recently Shindiggity won three proposals for health-care-related events that you helped write. You recall from the selection process that two factors helped push your proposals over the finish line: 1) knowledge and experience required to produce and manage an event with significant industry-specific technical needs; and 2) strong, established relationships with industry thought leaders whom Shindiggity could bring into the program at relatively short notice. As you share these insights, you realize the conversation is already moving on to the next step in the positioning strategy.

Step 2: Identify Your Competitive Advantages

You ask your colleagues to share what other factors are helping Shindiggity win new business. They agree that industry-specific technical knowledge and strong relationships with thought leaders are important distinguishing factors. While many other event management companies seem perfectly competent, there is an extra level of confidence customers express when they know Shindiggity has the expertise and connections to pull off highly technical, industry-specific events.

Someone mentions that since Shindiggity is a smaller firm than many others, it has lower overhead costs. This generally translates into somewhat lower pricing, which customers like. Kara, your V.P. expresses concern: "I don't think we want to compete on lowest price. That just doesn't feel like the right path."

This is a perfect opportunity for you to jump in. You back her up and say, "Positioning as the low price alternative would be a mistake, since our customers don't make their decisions based on price alone. But what about positioning

Shindiggity as offering more value for the money?" Kara and the others seem to like this approach. It acknowledges the reality that pricing exercises important influence in technology decisions, but it doesn't force the company into uncomfortably low budgets or profit margins.

Step 3: Choose Competitive Advantages That Define Your "Niche"

The group rounds out the discussion of Shindiggity's strengths and advantages: creativity, caring people, strong partnership with clients to achieve all their goals for the event. Next you suggest listing out the company's key competitors and their competitive advantages, to give everyone a common picture of the competitive landscape.

The list on the whiteboard runs long—nearly twenty companies are on it. As the team begins to enumerate the competitors' strengths, a pattern emerges. At least half of the competitors have noted competitive advantages related to the industries where they do the most work: media, sports and recreation, finance, apparel, and automotive, to name a few. If this survey of key players is any indicator, industry expertise is a great way to establish a place for yourself in events management.

While Shindiggity is not the only company with particular expertise in health care and pharmaceuticals, it is the only smallish company that has established this expertise as a competitive advantage. The handful of others tends to be larger firms with higher overhead, and, according to client feedback you heard recently, they tend to be more "cookie cutter" in their approach to events, rather than going the extra mile to give clients exactly what they want. All this talk of relative strengths and weaknesses is exciting: you're starting to see a positioning strategy come together.

Step 4: Define Your Positioning Strategy

After a short break, your group gets to work again. Kara observes, "We've got a great list of Shindiggity's strengths here, but what do we want customers to remember about us? What's going to make them seek us out and choose us over all these other companies they could work with?"

This is the moment you've been waiting for. "For our positioning strategy," you say, "I think we should focus on owning a distinctive benefit, something we do better than anyone else, linked to Shindiggity's strengths and competitive advantages. I'm not sure of the wording yet, but I think it's a combination of our health care and pharma expertise, and the way we partner with clients creatively to make events feel unique and visionary. How does that sound?"

Your proposal generates excitement because it taps into what makes people at Shindiggity so enthusiastic about their jobs: creativity, vision, and the challenge of designing events that are out of the ordinary. Kara remarks that it's a good sign when employees get this excited about a positioning strategy.

Step 5: Communicate and Deliver on the Positioning Strategy

Your breakout group needs to consolidate its thinking to share back with the rest of the company. You suggest translating the positioning strategy into a positioning statement, using the tried-and-true formula you learned in your marketing class:

> To [*target audience*], Product X is the only [*category or frame of reference*] that [*points of differentiation/benefits delivered*] because [*reasons to believe*].[1]

---

1. http://equibrandconsulting.com/templates/positioning-templates

After a few minutes' work, the group hammers out a positioning statement worth sharing:

> *To health care and pharmaceutical companies, Shindiggity is the only visionary partner that produces top-notch events health care professionals love to attend because they bring together great minds, enriching activities, and a dose of the extraordinary.*

Heading back into the main meeting room, Kara compliments you on your great ideas and suggests that you be the spokesperson to share your group's work with the rest of the company. "You should be proud," she adds. "I think we're really on to something here."

CHAPTER 7: BRANDING

Learning Objectives

- Explain why branding matters
- Describe the elements of brand and how brands add value to an organization's products and services
- Define brand equity and its role in measuring brand strength
- Explain the how marketers use brand positioning to align marketing activities and build successful brands
- Explain the importance of name selection in the success of a brand
- Discuss the role of packaging in the brand-building process
- Explain key strategies for developing brands including brand ownership, brand and line extensions, co-branding and licensing

7.1 WHY IT MATTERS: BRANDING

Why analyze elements of a brand and explain how the brand-building process contributes to the success of products or services?

Pop Quiz!

Instructions: *Grab a piece of paper and jot down answers to the following questions:*

- What is your favorite brand of clothing?
  - Why is it your favorite?
  - List a word or phrase that describes how this brand makes you feel:
- What is your favorite brand of car?
  - Why is it your favorite?
  - List a word or phrase that describes how this brand makes you feel:
- What is your favorite place to stop for coffee, donuts, a bagel, or some other snack?
  - Why is it your favorite?
  - List a word or phrase that describes how this place (which is also a brand) makes you feel:

Set the paper aside for a moment and keep reading. We'll come back to it.

The Power of Brand

Brands are images that exist in your mind–and in the minds of other consumers–about the things around you: products, services, places, companies, people, entertainment, and so on. In a modern world that offers many choices, brands help simplify the decisions you make about what to buy, where to go, and how to spend your time.

Brands are powerful. When you explain why a brand is your favorite, you probably identify some of the traits or features of its products or services that explain rationally what makes it better than others. But rational explanations are just part of the story. Strong brands are powerful because they also tap into emotions. They make you feel a certain way, and that feeling is hard for any other brand to replicate—let alone replace.

Brands can cause people to spend more money on a product than they would otherwise. Brands can create a sense of loyalty and even lock-in—that haloed point where a tribe of dedicated fans always chooses one company's product or services over another.

So how do they do it? What's happening in marketing departments to create these powerful, emotional assets called brands?

What Creates a Brand Experience?

Go back to your pop quiz responses. Pick one of your favorite brands and list 2–3 things the company behind the brand provides to help make that favorite brand so memorable or special for you. It could be any of the following things–or something else entirely:

- Brand name
- Product design
- The shopping experience
- The post-purchase experience
- People or communities associated with the brand
- Product packaging
- Advertising
- Social media activity
- Customer service
- Comfort, convenience, or ease-of-use
- Attitude or personality of the brand
- Special information, deals, or promotions targeted to you
- Membership or loyalty programs
- Pricing or value for the money
- Events or activities tied to the brand
- Something else?

Marketers use these tools and many others to create the total experience with a product, service, or company that turns it into an actual "brand." In this module, you'll learn how a brand starts and discover what it takes to coordinate all the different parts of the unique brand.

The Paradox of Brand

Although organizations take all kinds of measures to create and build brands, in fact, the brand *isn't* just what the company says it is. In the end, the brand is what customers *believe* it is, as the following quote explains:

> *So what exactly is a brand?*
>
> *A brand is a person's gut feeling about a product, service, or organization.*
>
> *It's a gut feeling because people are emotional, intuitive beings. It's a person's gut feeling because brands are defined by individuals, not companies, markets, or the public.*

> *It's not what YOU say it is.*
> *It's what THEY say it is.*
>
> —Marty Neumeier, author and branding consultant, Neutron LLC

Companies can do a lot to create and build brands, but the net impact and value is what happens inside the mind of the consumer. The supreme challenge of brand is to make your vision of your brand the same thing other people experience and believe about your brand.

Don Draper of Mad Men captures (in the antiquated context of the 1950's) the difference of a good brand experience and how it can create a feeling.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=386#oembed-1

Read on to learn more.

Image Credit

Awe, J.C. (2013, February 7). Coffee art in 3D [Photograph]. CC BY 2.0 Flickr. https://www.flickr.com/photos/qqjawe/8452733327/

7.2 ELEMENTS OF BRAND

Learning Objectives

- Define brand
- Explain elements that contribute to a brand and the brand-building process
- Explain how brands contribute value to organizations and consumers
- Describe different types of brands
- Describe the elements of brand and how brands add value to an organization's products and services

If you walk through a parking lot at school, work, or the local mall, chances are good that you could identify all the car brands just by looking at hood emblems. When you spot someone with a "swoosh" on their T-shirt, you probably already know they're wearing Nike-brand apparel without even asking. How is it possible to know so much just by looking at an image or a shape? The answer is branding!

These familiar symbols are the tangible marks of branding in our everyday lives. But brands are much more than just logos and names. Brands also encompass everything else that contributes to your perception of that brand and what it represents.

Learning Activities

- Reading: Elements of Brand
- Video: REI Builds Brand by Closing on Black Friday
- Reading: Types of Brands

What Is a Brand?

As we start our exploration of brand and its role in marketing, take a few minutes to watch the following video about Coca-Cola, which is perhaps one of the most iconic brands of all time.

Brands are interesting, powerful concoctions of the marketplace that create tremendous value for organizations and for individuals. Because brands serve several functions, we can define the term "brand" in the following ways:

- **A brand is an identifier:** a name, sign, symbol, design, term, or some combination of these things that identifies an offering and helps simplify choice for the consumer.
- **A brand is a promise:** the promise of what a company or offering will provide to the people who interact with it.
- **A brand is an asset:** a reputation in the marketplace that can drive price premiums and customer preference for goods from a particular provider.
- **A brand is a set of perceptions:** the sum total of everything individuals believe, think, see, know, feel, hear, and experience about a product, service, or organization.
- **A brand is "mind share":** the unique position a company or offering holds in the customer's mind, based on their past experiences and what they expect in the future.

A brand consists of all the features that distinguish the goods and services of one seller from another: name, term, design, style, symbols, customer touchpoints, etc. Together, all elements of the brand work as a psychological trigger or stimulus that causes an association to all other thoughts one has had about this brand. Brands are a combination of tangible and intangible elements, such as the following:

- Visual design elements (i.e., logo, colour, typography, images, tagline, packaging, etc.)
- Distinctive product features (i.e. quality, design sensibility, personality, etc.)
- Intangible aspects of customers' experience with a product or company (i.e. reputation, customer experience, etc.)

Branding–the act of creating or building a brand–may take place at multiple levels: company brands, individual product brands, or branded product lines. Any entity that works to build consumer loyalty can also be considered a brand, such as celebrities (Lady Gaga), events (CIBC Run for the Cure), and places (Las Vegas).

History of Branding

The word "brand" is derived from the Old Norse *brand* meaning "to burn," which refers to the practice of producers burning their mark (or brand) onto their products. Italians are considered among the first to use brands in the form of watermarks on paper in the 1200s. However, in mass-marketing, this concept originated in the nineteenth century with the introduction of packaged goods.

During the Industrial Revolution, the production of many household items, such as soap, was moved from local communities to centralized factories to be mass-produced and sold to the wider markets. When shipping their items, factories branded their logo or insignia on the barrels they used. Eventually these "brands" became trademarks—recognized symbols of a company or product that have been established by use. These new brand marks enabled packaged goods manufacturers to communicate that their products were distinctive and should be trusted as much as (or more than) local competitors. Campbell Soup, Coca-Cola, and Juicy Fruit gum were among the first products to be "branded."

The Coca-Cola logo is an example of a widely recognized trademark and global brand. Source: Lumen Learning. Elements of Brand, in Module 9. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-elements-of-brand/

Brands Create Market Perceptions

A successful brand is much more than just a name or logo. As suggested in one of the definitions above, brand is the sum of perceptions about a company or product in the minds of consumers. Effective brand building can create and sustain a strong, positive, and lasting impression that is difficult to displace. Brands provide external cues to taste, design, performance, quality, value, or other desired attributes if they are developed and managed properly. Brands convey positive or negative messages about a company, product, or service. Brand perceptions are a direct result of past advertising, promotion, product reputation, and customer experience.

A brand can convey multiple levels of meaning, including the following:

As an automobile brand, the Mercedes-Benz logo suggests high prestige. Source: Lumen Learning. Elements of Brand, in Module 9. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-elements-of-brand/

1. **Attributes:** specific product features. The Mercedes-Benz brand, for example, suggests expensive, well-built, well-engineered, durable vehicles.
2. **Benefits:** attributes translate into functional and emotional benefits. Mercedes automobiles suggest prestige, luxury, wealth, reliability, self-esteem.
3. **Values:** company values and operational principles. The Mercedes brand evokes company values around excellence, high performance, power.
4. **Culture:** cultural elements of the company and brand. Mercedes represents German precision, discipline, efficiency, quality.
5. **Personality:** strong brands often project a distinctive personality. The Mercedes brand personality combines luxury and efficiency, precision and prestige.
6. **User:** brands may suggest the types of consumers who buy and use the product. Mercedes drivers might be

perceived and classified differently than, for example, the drivers of Cadillacs, Corvettes, or BMWs.

Brands Create an Experience

Effective branding encompasses everything that shapes the perception of a company or product in the minds of customers. Names, logos, brand marks, trade characters, and trademarks are commonly associated with brand, but these are just part of the picture. Branding also addresses virtually every aspect of a customer's experience with a company or product: visual design, quality, distinctiveness, purchasing experience, customer service, and so forth. Branding requires a deep knowledge of customers and how they experience the company or product. Brand-building requires long-term investment in communicating about and delivering the unique value embodied in a company's "brand," but this effort can bring long-term rewards.

In consumer and business-to-business markets, branding can influence whether consumers will buy the product and how much they are willing to pay. Branding can also help in new product introduction by creating meaning, market perceptions, and differentiation where nothing existed previously. When companies introduce a new product using an existing brand name (a brand extension or a branded product line), they can build on consumers' positive perceptions of the established brand to create greater receptivity for the new offering.

Brands Create Value

Brands create value for consumers and organizations in a variety of ways.

Benefits of Branding for the Consumer

Brands help simplify consumer choices. Brands help create trust, so that a person knows what to expect from a branded company, product, or service. Effective branding enables the consumer to easily identify a desirable company or product because the features and benefits have been communicated effectively. Positive, well-established brand associations increase the likelihood that consumers will select, purchase, and consume the product. Tim Hortons, for example, has an established logo and imagery familiar to many Canadian consumers. The vivid colours and the always fresh slogan are easily recognized and distinguished from competitors, and many associate this brand with tasty donuts, good coffee, and great prices. It combines small-town living with hockey and a compelling brand story. The trusted Canadian brand has its own nickname of "Timmies." In recent years, as ownership changed have caused a slip in their brand ranking. In May 2018, the Reputation Institute reported that Tim Hortons had fallen from 13th to 67th in its study of Canada's most reputable compa-

Tim Hortons in Cochrane Ontario. Source: Lumen Learning. Elements of Brand, in Module 9. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-elements-of-brand/

nies. Digging in deeper, an Ipsos study showed that 35% of consumers said their opinion of Tim's has gone down over the past five years. [1]

Brands are living and dynamic. Companies can not control their brands. Sometimes the customer can create the brand or its nickname.

Listen to the Under the Influence podcast of Brands and their nicknames. Start at 4:31 minutes.

Benefits of Branding for Product and Service Providers

For companies and other organizations that produce goods, branding helps create loyalty. It decreases the risk of losing market share to the competition by establishing a competitive advantage customers can count on. Strong brands often command premium pricing from consumers who are willing to pay more for a product they know, trust, and perceive as offering good value. Branding can be a great vehicle for effectively reaching target audiences and positioning a company relative to the competition. Working in conjunction with positioning, brand is the ultimate touchstone to guide choices around messaging, visual design, packaging, marketing, communications, and product strategy.

For example, Starbucks' loyal fan base values and pays premium prices for its coffee. Starbucks' choices about beverage products, neighborhood shops, the buying experience, and corporate social responsibility all help build the Starbucks brand and communicate its value to a global customer base.

The Starbucks brand is associated with premium, high-priced coffee. Source: Lumen Learning. Elements of Brand, in Module 9. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-elements-of-brand/

Benefits of Branding for the Retailer

Retailers such as Target, Safeway, and Walmart create brands of their own to create a loyal base of customers. Branding enables these retailers to differentiate themselves from one another and build customer loyalty around the unique experiences they provide. Retailer brand building may focus around the in-store or online

1. Robertson, G. (2020, February 9). *Tim Horton's fixing everything except what is hurting the brand. Beloved Brands*. Beloved Brands. https://beloved-brands.com/2020/02/09/tim-hortons/

shopping environment, product selection, prices, convenience, personal service, customer promotions, product display, etc.

Retailers also benefit from carrying the branded products customers want. Brand-marketing support from retailers or manufacturers can help attract more customers (ideally ones who normally don't frequent an establishment).

Image Credits

Couleur. (2016, February 24). Coca Cola crown corks [Photograph]. CCO Pixabay. https://pixabay.com/photos/coca-cola-crown-corks-red-1218688/

JerryUnderscore. (2017, January 11). Starbucks Coffee sign [Photograph]. CCO Pixabay. https://pixabay.com/photos/starbucks-coffee-sign-city-urban-1972319/

Kirakirameister. (n.d.). Dunkin Donuts [Photograph]. CC BY-SA 4.0 Wikimedia. https://commons.wikimedia.org/wiki/File:Dunkin%27_Donuts_Myeongdong.JPG

MikesPhotos. (2015, September 29). Mercedes Benz [Photograph]. CCO Pixabay. https://pixabay.com/photos/car-mercedes-transport-auto-motor-1506922/

VIDEO: REI BUILDS BRAND BY CLOSING ON BLACK FRIDAY

Organizations build their brands through all the ways they communicate and interact with consumers. Sometimes a company takes specific actions to demonstrate what a brand stands for, attract attention, and hopefully deepen customer loyalty because of what their brand represents.

That's exactly what outdoor retailer REI did when it announced in October 2015 that their doors would be locked on one of the biggest shopping days of the year. Its CEO, Jerry Stritzke, told employees in an email, "While the rest of the world is fighting it out in the aisles, we hope to see you in the great outdoors." In the following video, Stritzke joins CBS *This Morning* to explain the company's decision and how it reflects on the REI brand.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=394#oembed-1

You can view the transcript for "REI Closing on Black Friday" here (opens in new window).

This compares to Mountain Equipment Co-op (MEC) who participated in various global protests by closing it stores during the September 2018 global climate strike day or creates MEC ambassadors who speak to various issues including diversity.

https://youtube.com/watch?v=PpWfJ_-UbUE

As you watch these videos, think about how these announcements and actions might change your perceptions of the avid outdoors enthusiasts REI or MEC targets? Even if you don't fit this target segment, how would this announcement affect your perceptions of the their brand?

Many kinds of things can become brands. Different types of brands include individual products, product ranges, services, organizations, individual persons, groups, events, geographic places, private label brands, media, and e-brands.

Individual Brands

The most common type of brand is a tangible, individual product, such as a car or drink. This can be very specific, such as the Kleenex brand of tissues, or it can encompass a wide range of products. Product brands can also be associated with a range of offerings, such as the Mercedes S-class cars or all varieties of Colgate toothpaste.

Service Brands

A service brand develops as companies move from manufacturing products to delivering complete solutions and intangible services. Service brands are characterized by the need to maintain a consistently high level of service delivery. This category includes the following:

- Classic service brands (such as airlines, hotels, car rentals, and banks)
- Pure service providers (such as member associations)
- Professional service brands (such as advisers of all kinds—accountancy, management consultancy)
- Agents (such as travel agents and estate agents)
- Retail brands (such as supermarkets, fashion stores, and restaurants)

Organization Brands

Organization brands are companies and other entities that deliver products and services. Mercedes and Pantagonia each possess strong organizational brands, and each has associated qualities that make up their brand. Organizations can also be linked closely with the brand of an individual. For example, Founder Steve Jobs, and current CEO, Tim Cook of Apple.

Personal Brands

A person can be considered a brand. It can be comprised of one individual, as in the cases of Oprah Winfrey or Beyonce. Or it may be composed of a few individuals, where the branding is associated with different personalities. With the advent of the Internet and social media, the phenomenon of *personal branding* offers tools and techniques for virtually anyone to create a brand around themselves.

Group Brands

Group branding happens when there is a small group of branded entities that have overlapping, interconnected brand equity. For example, the OWN group brand of the Oprah Winfrey Network and the brand of its known members (Oprah and her team) are strongly connected. Similarly, the DASH brand of the Kardashian's is a lifestyle empire.

OWN: The Oprah Winfrey Network. Source: Lumen Learning. Types of Brands, in Module 9. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-types-of-brands/

Event Brands

Events can become brands when they strive to deliver a consistent experience that attracts consumer loyalty. Examples include conferences the TED series; music festivals like Coachella or film festivals like TIFF; sporting events like the Olympics or NASCAR; and touring Broadway musicals like *Hamilton*. The strength of these brands depends on the experience of people attending the event. Savvy brand managers from product, service, and other types of brands realize the power of event brands and seek to have their brands associated with the event brands through sponsorships. Event sponsorship is now a thriving big business.

Geographic Place Brands

Many places or areas of the world seek to brand themselves to build awareness of the essential qualities they offer. Branded places can range from countries and states to cities, streets, and even buildings. Those who govern or represent these geographies work hard to develop the brand. Geographic branding is used frequently to attract commerce and economic investment, tourism, new residents, and so on.

Private-Label Brands

Private-label brands, also called own brands, or store brands, exist among retailers that possess a particularly strong identity. Private labels may denote superior, "select" quality, or lower cost for a quality product.

Media Brands

Media brands include newspapers, magazines, and television channels such as CNN, CTV, CNBC, Disney, and more.

Is Facebook a media brand?

CNN Logo. Source: Lumen Learning. Types of Brands, in Module 9. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-types-of-brands/

E-Brands

E-brands exist only in the virtual world. Many e-brands, such as Amazon.com, have a central focus on providing an

online front end for delivering physical products or services. Others provide information and intangible services to benefit consumers. Typically a common denominator among e-brands is the focus on delivering a valued service or experience in the virtual environment.

7.3 BRAND EQUITY

Learning Objectives

- Explain the concept of brand equity
- Discuss why and how marketers measure brand equity
- Define brand equity and its role in measuring brand strength

When most people see the Nike swoosh, what makes them think, "Just Do It!"? When kids see Mickey Mouse ears, what makes them think, "Disneyland"? When fans see the international soccer logo, FIFA, what makes them think of corrupt officials and financial misdeeds? When many Americans see the BP logo, what makes them think of environmental disaster in the Gulf of Mexico?

All of these scenarios are examples of *brand equity*, which are the associations people have about a particular brand. Brand equity translates into a value premium (or deficit) associated with a given brand in the minds of customers. Think of it as the "super bonus" a teen boy feels for a pair of Adidas or Nike sneakers compared with Sketchers or no-name shoes. Or think of it as the negativity an airline has to overcome the day after one of its planes goes down in a crash.

Brand equity waxes and wanes with the fortunes of a company, product, and market. As you'll discover, many things contribute to brand equity, and there are many ways to measure it.

Learning Activities

- Reading: Brand Equity
- Self Check: Brand Equity

Brand Equity

In marketing, brand equity refers to the value of a well-known brand that conjures positive (or negative) mental and emotional associations. What does this actually mean? Let's do an experiment with brand equity in action.

Brand equity is what exists in your mind (or doesn't yet exist) to help you recognise these branded images and phrases. Brand equity is also the set of positive, negative, or neutral thoughts, beliefs, and emotions you associate with each of the brands. Brand equity can manifest itself in consumer recognition of logos or other visual elements, brand language associations, consumers' perceptions of quality, and consumers' perceptions of value or other brand attributes.

For any given product, service, or company, brand equity is considered a key asset because it gives meaning to the brand in the minds of its consumers. Brand equity can help a strong brand remain relevant and competitive in the marketplace, and it can help brands and companies weather storms that threaten their value and existence. Volkswagen, for example, is hoping that the strong brand equity it built during the decades before the 2015 emissions scandal will help restore customer confidence in its company and product brand.

When consumers trust a brand and find it relevant to themselves and their lives, they may select the offerings associated with that brand over those of competitors, even at a premium price. For example, Häagen-Dazs and Ben & Jerry's both command higher prices per pint at the grocery store than many national brands and most store brands of ice cream. Starbucks can sell its coffee at a higher price than its solid market competitors because consumers associate the brand with quality, value, and the experience of connecting with others in a comfortable space. This is why brand equity often correlates directly with a brand's profitability.

Measuring Brand Equity

Brand equity is strategically important but also difficult to measure or quantify. As a result, many experts have developed tools or metrics to analyse brand equity, although there is no universally accepted way to measure it. For example, while it can be measured quantitatively using numerical values such as profit margins and market share, this approach fails to capture qualitative elements, including prestige and mental and emotional associations.

What to Measure

According to David Aaker, a marketing professor and brand consultant, the following are ten attributes of a brand that can be used to assess its strength, or equity:[1]

1. **Price premium:** the amount a customer is willing to pay for one brand in comparison to other comparable

1. http://www.iuc-edu.eu/group/sem1_L3/2013%20DNPBM/Lecture%2014%20Measuring%20Brand%20Equity.pdf

brands
2. **Customer satisfaction/loyalty:** whether a customer would buy the brand at the next opportunity, or remain loyal to that brand
3. **Perceived quality:** perceptions about whether a brand is of high, average, or inferior quality
4. **Leadership/popularity:** being in a market leadership position as a leading brand, a leader in innovation, and/or growing in popularity
5. **Value:** perceptions of whether a brand has good value for the money and whether there are reasons to choose it over competitors
6. **Brand personality:** distinctive, interesting, emotional, and self-expressive benefits associated with a brand
7. **Organisational associations:** the people, values, and programs associated with the brand
8. **Brand awareness:** the degree to which customers are familiar with and have knowledge about a brand
9. **Market share:** share of sales among the competitive set
10. **Market price and distribution coverage:** measures of average selling price relative to competitors and how many people have access to the brand

Marketers can use various research methods to measure each of these attributes. Some organisations invest in complex marketing research projects to measure and track brand equity over time using one or more of these metrics.

Brand Asset Valuator

Young & Rubicam (Y&R), a marketing communications agency, has developed the "Brand Asset Valuator," a tool used to diagnose the power and value of a brand. The agency uses this tool to survey and measure consumers' perspectives along the following four dimensions:[2]

1. **Differentiation**: the defining characteristics of the brand and its distinctiveness relative to competitors
2. **Relevance**: the appropriateness and connection of the brand to a given consumer
3. **Esteem**: consumers' respect for and attraction to the brand
4. **Knowledge**: consumers' awareness of the brand and understanding of what it represents

This approach is useful for gaining a detailed understanding of how target audiences perceive a brand, how well they understand it, and how relevant it is in their lives. Y&R uses this methodology to help organisations diagnose whether their brands are rising or fading relative to competitors and help them develop strategies and tactics to strengthen existing brands or freshen up/rebuild those that are waning.

There are several different categories of brands, sorted by their differentiation, relevance, esteem, and knowledge. Note that we'll also discuss their brand strength (which is their differentiation and relevance) and their brand stature (which is their esteem and knowledge).

- **New/Fading Brands** have low brand stature and low brand strength. They can be sorted into two categories:
  - New has medium differentiation, less relevance, less esteem, and low knowledge.
  - Unfocused (fading) has low to medium differentiation, low relevance, low esteem, and high to medium

2. http://young-rubicam.de/tools-wissen/tools/brandasset-valuator/?lang=en

knowledge.

- **Aspiring Brands** have low brand stature and high brand strength. They have high differentiation, medium relevance, slightly less esteem, and slightly less knowledge.
- **Power Brands** have high brand stature and high brand strength. They can be sorted into two categories:
  - Leadership exhibits high differentiation, relevance, esteem, and knowledge.
  - Declining has low differentiation and high relevance, as well as high esteem and knowledge.
- **Eroding Brands** have low brand stature and high brand strength. They have low differentiation, slightly higher relevance, slightly higher esteem, and medium knowledge.

Other Methods for Measuring Brand Equity

Brand equity can also be measured using other methods, such as the following:

- **As a financial asset:** Brand equity can be studied as a financial asset by making a calculation of a brand's worth as an intangible asset. For example, a company can estimate brand value on the basis of projected profits discounted to a present value. In turn, the present value can be used to calculate the risk profile, market leadership, stability, and global reach. Forbes, Interbrand and other organisations conduct this type of valuation and publish annual lists of the most valuable global brands.
- **As a price differential**: The price of an equivalent well-known brand can be compared to that of competing, no-name, or private-label products. The value of this price differential can be calculated to estimate the brand's price premium in terms of past, present, or future revenue.
- **Consumer favourability and preference:** Several brand-equity methodologies attempt to map the consumer's mind to uncover associations with a given brand. For example, projective techniques can be used to identify tangible and intangible attributes, attitudes, and various perceptions about the brand. Under this approach, the brands with the highest levels of awareness and most favourable and unique associations are considered high-equity brands.
- **As consumer perceptions:** Another brand-equity measurement technique assesses which attributes are most important in influencing customer buying choices, and then measures how well various competitors perform against the most important attributes. This approach helps marketers better understand the customer decision-making process, how brands influence it, and which competitors "own" key attributes that drive customer decisions.

These different approaches build the brand vision. Some elements of the brand are more impactful than others.

Watch David Aaker describe his view on Brand equity to build the overall Brand vision or character.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=401#oembed-1

Building Brand Loyalty

One of the most important reasons for building brand equity is to win brand-loyal customers. In marketing, brand

loyalty refers to a consumer's commitment to repurchase or otherwise continue using a particular brand by repeatedly buying a product or service.

Aside from a consumer's ability to repurchase a brand, true brand loyalty exists when the customer is committed to the brand and has a high relative attitude toward the brand, which is then demonstrated through repurchase behaviour. For example, if Joe has brand loyalty to Company A, he will purchase Company A's products even if Company B's products are cheaper and/or of a higher quality. As an organisation increases its number of brand-loyal customers, it develops a stronger and more predictable position in the market. As noted above, brand equity and brand loyalty enable an organisation to enjoy price premiums over competitors.

Like brand equity, brand loyalty is a multidimensional concept. It is determined by several distinct psychological processes, such as the customers' perception of value, brand trust, satisfaction, repeat-purchase behaviour, and commitment. *Commitment* and *repeated-purchase behaviour* are considered necessary conditions for brand loyalty, followed by *perceived value*, *satisfaction*, and *brand trust*.

Philip Kotler identifies the following four customer types that exhibit similar patterns of behaviour:

1. **Hard-core Loyals**, who buy the brand all the time
2. **Split Loyals**, who are loyal to two or three brands
3. **Shifting Loyals**, who move from one brand to another
4. **Switchers**, who have no loyalty (are possibly "deal-prone," constantly looking for bargains, or are "vanity-prone," looking for something different)

Understanding the dynamics of these audiences is crucial for marketers, as it enables them to identify trends within their target segments and direct their attention and marketing investment accordingly. A large-scale 2013 study across 14 million store visits by 1 million customers found that loyal customers (those visiting the stores 10+ times) accounted for about 20 per cent of all customers but 80 per cent of revenue and 72 per cent of all store visits. Obviously, knowing and growing your loyal customer base makes a huge difference.[3]

Benefits of Brand Loyalty

The benefits of brand loyalty include longer tenure, or staying a customer for a longer period, and lower sensitivity to price changes. Recent research found evidence that longer-term customers were indeed less sensitive to price increases.

According to Andrew Ehrenberg, consumers buy "portfolios of brands." They regularly switch between brands, often because they simply want a change. Thus, "brand penetration" or "brand share" reflects only a statistical chance that the majority of customers will buy that brand next time as part of a portfolio of brands. It does not guarantee that they will remain loyal.

By creating promotions and loyalty programs that encourage the consumer to take some sort of action, companies are building brand loyalty by offering more than just an advertisement. Offering incentives like big prizes creates an environment in which customers view the advertiser as more than just a brand. Individuals are far more likely to

3. http://www.marketingprofs.com/chirp/2013/11338/surprising-facts-about-customer-loyalty-marketing-infographic#ixzz2wj6EeIlJ

come back to a company that uses interesting promotions or loyalty programs than a company with a static message of "buy our brand because we're the best."

Popular Loyalty Programs

Below are some of the most popular customer loyalty programs used today by many companies. These programs allow organisations to engage their customers beyond traditional advertising and create incentives for consumers to become brand-loyal, repeat customers.

- Sweepstakes and advergames
- Points-based loyalty programs, awarding prizes for incremental purchase behaviour (e.g., frequent-flyer programs, credit cards)
- Branded digital games that engage consumers with prize incentives
- Contests
- Skill tests and user-generated promotion,s such as video and photo contests
- Social media applications and management
- Social media promotions and offers
- Customer rewards programs (e.g., pay lower prices using a frequent-buyer card)
- Coupons (hard copy and/or digital)
- Promotional auctions—bid for prizes with points earned from incremental purchase behavior
- Email clubs
- Subscription databases—national and/or segmented by market
- SMS Promotions
- iPhone apps
- Branded web apps

As you'll see in the following video, customers are well aware that companies are using loyalty programs to court them and win their repeat business—but it doesn't seem to matter. Customers have come to expect something in exchange for their loyalty.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=401#oembed-2

You can view the transcript for "Give and Take Rewards" (opens in new window).

7.4 BRAND POSITIONING AND ALIGNMENT

Learning Objectives

- Explain the concept of brand positioning
- Discuss techniques marketers use to achieve strong brand positioning and alignment:
    - Brand promise
    - Brand voice and personality
    - Brand positioning statement
- Explain how marketers use brand positioning to align marketing activities and build successful brands

It is clear that brands are valuable assets that benefit organizations and their customers. Building brand loyalty is an important goal for marketers. But what does it take to build a brand?

Brands are shaped by many different activities. As a marketer, you can control some of these activities, but not others. For instance, you can put together an amazing product design, a fabulous brand name, memorable packaging, irresistible marketing promotions, and delightful customer service—those are all things within your control. But you can't control how customers actually react to and use the product, despite your best efforts to direct and influence them. You also can't control what they write in online reviews.

In order to optimize the success of your brand, you should become very good at aligning all the activities you can control, so that the brand experience you provide is consistent for the customers you care about. Consistency and alignment are essential for building strong brands.

Brand positioning is an ideal tool for creating this alignment. It's how you figure out what your brand really means to you. It's the yardstick you use to figure out which messages and activities will communicate that brand most effectively. It provides the pattern for helping customers understand what to think about your brand and decide whether it matters to them and they can trust it.

In the end, brand positioning is the clearest path toward creating brand-loyal customers.

Learning Activities

- Reading: Brand Positioning and Alignment
- Video: Red Bull's Extreme Brand Alignment
- Self Check: Brand Positioning and Alignment

Building Strong Brands: Consistency Matters

To make an impression in a market, brands need to stand for something. Inconsistent brands and messages fail to make a lasting impression because it is difficult for customers to trust them or register what these brands represent. On the other hand, when a brand is both consistent and relevant to customers, it builds recognition, credibility, trust, and ultimately loyalty. And loyalty, as you've learned, translates into sales.

Consistency is also crucial when differentiating a product. Brands simplify decisions for customers. When a brand consistently communicates how and why it is distinct from competitors, it reminds customers why they prefer this brand over others–and why they may be willing to pay more for it.

Finally, consistency is imperative in the globalised economy in which virtually every business operates today. Brand-related messages and communications circulate around the world at astonishing speed: Just ask any company that had seen a significant story break on social media. While it does make sense to target specific messages to different global markets according to consumer needs, those messages should all be aligned to a consistent, centralised brand identity. A brand manager–the marketer responsible for directing and managing brand strategy–must think of herself as an ambassador, advocating and communicating on behalf of that common brand in the various markets where the brand is represented.

Brand Positioning: A Tool for Achieving Consistency

The Brand Platform

As you learned in the previous module, product positioning is an important strategic tool that helps organisations focus their messages and marketing activities around a consistent, differentiating message aimed at a target segment. Brand positioning works on the same principle. The goal of brand positioning—like the positioning for any product or service—is to explain why that brand is different and better for its target customers, and why the differences matter.

At the same time, brands need a consistent, universal identity that is the same regardless of whom you communicate with. For this reason, brand positioning starts with defining precisely what the brand stands for. This is called the *brand platform*. The brand platform may encompass a range of descriptive elements to convey a clear picture of what a brand represents. Some brand platform models are very complex, with ten or more inputs. Others are simpler and more streamlined.

The brand platform begins with the organisation's mission statement, since the ultimate purpose of a brand is to help the organisation achieve its mission. It also incorporates the value proposition for whatever the brand promotes. Remember that brands may operate at the company level (needing a company-level value proposition) or at the product or service level (needing an offering-specific value proposition). In addition to the mission statement and value proposition, the basic elements of any brand platform are a brand promise, core values, a brand voice or personality, and a brand positioning statement. These are discussed below.

The Brand Promise

The brand promise is, in effect, the singular experience your brand promises to provide to your customers. It expresses what you want them to feel when they interact with your products and services. Year in, year out, the brand promise is what your customers count on and, ideally, it's the reason they keep coming back to you. The brand promise should be unique and linked to your competitive advantage: something other brands do not and cannot deliver in the way you do. It describes the most salient benefits your brand provides, including benefits that create an emotional connection with customers.

The brand promise is important not only for customers but also for employees and other internal audiences. It sets the tone for how the company operates and for the experience the brand provides to customers across all segments and touchpoints.

Finally, the brand promise should be simple and easily understood, so it's easy to communicate and reinforce. Some marketers equate the marketing tagline, or advertising slogan, with the brand promise. While there are some exceptions, most brand-promise statements do not use the same marketing language that's used in ad slogans. For instance, Nike's "Just Do It" slogan works very well as part of an ad campaign, but it's not very illuminating as a brand promise. Similarly, fast-food chain Taco Bell never intended its catchy "Make a Run for the Border" tagline to be interpreted as a brand promise. Also, taglines, which are part of marketing communications, may need to be updated more frequently than the brand promise. In contrast, the brand promise should be the global, enduring commitment you stand for over time.

A brand promise can be communicated through different means and is not always described specifically as a "promise". The essence of the brand promise is to express a certain experience or feeling towards customers while communicating the brand's purpose. As long as that is reflected, we can consider it a brand promise. The following are examples of effective brand promises:

- **The Coca-Cola Company:** Refresh the world. Make a difference. [1]
- **TOMS Shoes:** We believe in a future where all people have the chance to thrive. That's why we invest 1/3 of our profits in grassroots efforts, like organisations creating change at the local level, and driving progress from the ground up.[2]
- **Target:** To help all families discover the joy of everyday life [3]
- **Clearwater Seafood:** Together we are building the world's most extraordinary, ***wild*** seafood company, dedicated to Sustainable Seafood Excellence.

Core (Brand) Values

Core values are guiding principles for how an organisation does business. These values express a perspective on the world, and they govern both internal conduct and external behaviour. While the brand promise explains *what* consistent experience a brand will deliver, the core values describe *how* the company will behave as it delivers that experience.

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1. *Purpose and Vision*. (n.d.). The Coca-Cola Company. https://www.coca-colacompany.com/company/purpose-and-vision

2. *Impact*. (n.d.). TOMS® Official Site. https://www.toms.com/ca/impact.html.

3. *our purpose & history*. (n.d.). A Bullseye View. https://corporate.target.com/about/purpose-history

Zappos' Values

An excellent example of core values infusing a strong brand comes from online retailer Zappos. The company's ten "Family Core Values," listed below, are written for current and prospective employees and describe Zappos' operating principles. At the same time, these values also set the tone for what customers can expect from Zappos and how they interact with the Zappos brand.

Zappos Family Core Values[4]

1. Deliver WOW through Service
2. Embrace and Drive Change
3. Create Fun and a Little Weirdness
4. Be Adventurous, Creative, and Open-Minded
5. Pursue Growth and Learning
6. Build Open and Honest Relationships with Communication
7. Build a Positive Team and Family Spirit
8. Do More with Less
9. Be Passionate and Determined
10. Be Humble

Even if you are unfamiliar with Zappos, these core values give you a strong sense of what the company must be like, either to work for or to do business with.

Not every organisation defines ten core values; in fact, most keep the number to six or fewer in order to retain a better focus on defining and expressing the organisation's identity. What does matter is to find ways for the brand to deliver these values, so that they become real for employees and customers. For example, Zappos empowers individual employees to make judgment calls about how they deliver WOW-worthy customer service; every decision doesn't have to go through manager approval. By encouraging personal initiative in this way, the company also invites creativity, learning, and passion from its employees.

Source: Lumen Learning. Brand Positioning and Alignment, in Module 9. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-brand-positioning/

Brand Voice and Personality

Just like people, strong brands have an outlook, tone, and personality that help reinforce the consistency of what and how the brand gets communicated to customers, employees, and other stakeholders. The brand voice and per-

4. *Zappos 10 Core Values*. (n.d.). Zappos Insights. https://www.zapposinsights.com/about/core-values.

sonality are rooted in the brand promise and values, but they help flesh out the brand's distinctive image and presence. A useful template for defining brand voice and personality is the "is/is never" template. Using this template, marketers define the voice and personality attributes of the brand, much like they would for a person. For example:

- Brand X **is** strong, authentic, independent, resourceful, and classic.
- Brand X **is never** frivolous, trendy, or fake.

A well-defined brand voice is a window into the brand's personality. Together, the brand voice and personality set the linguistic tone for all brand-related communications and promotions. They also guide the choice of visual design, logo, and the look and feel of the brand, ensuring that the overall visual representation is a good match for what the organisation wants the brand to convey.

As a short exercise, take a moment and see if you can construct "is/is never" statements for a couple of well-known brands. What are the brand voice and personality of, say, Under Armour, compared with another well-known clothing brand, such as LuLulemon?

Brand Positioning Statement

Brand positioning follows the same process for product and service positioning outlined in the positioning module: understanding market and competitive dynamics, confirming competitive advantages, defining the market niche and positioning strategy, and delivering on that strategy. Fortunately, the brand promise should provide strong guidance around the competitive advantages and market niche that should be represented in the positioning statement.

Brand managers may develop brand-positioning statements according to the same formula used for product positioning (discussed in the positioning module):

> To [*target audience*], Brand X is the only [*category or frame of reference*] that [*points of differentiation/benefits delivered*] because [*reasons to believe*].[5]

Note that the target audience for the brand-positioning statement should include all the audiences for the brand, not just the specific, narrowly defined target segment you'd expect in a product- or service-positioning statement. The brand needs to be relevant to every conceivable audience you are trying to reach (which may include multiple target segments). For that reason, the brand-positioning statement needs to be written in such a way that it has a broad enough appeal to speak to that larger audience.

As with a product- or service-positioning statement, the brand-positioning statement becomes a guiding document for decisions about the key messages the organization should communicate about the brand, as well as other marketing activities.

Aligning to Deliver the Brand

It takes strong focus and hard work to navigate the brand-positioning process and establish a brand platform. However, once this work is completed, brand managers and marketers have a solid foundation for determining what they want to achieve with the brand. Next, the fun of brand building can begin.

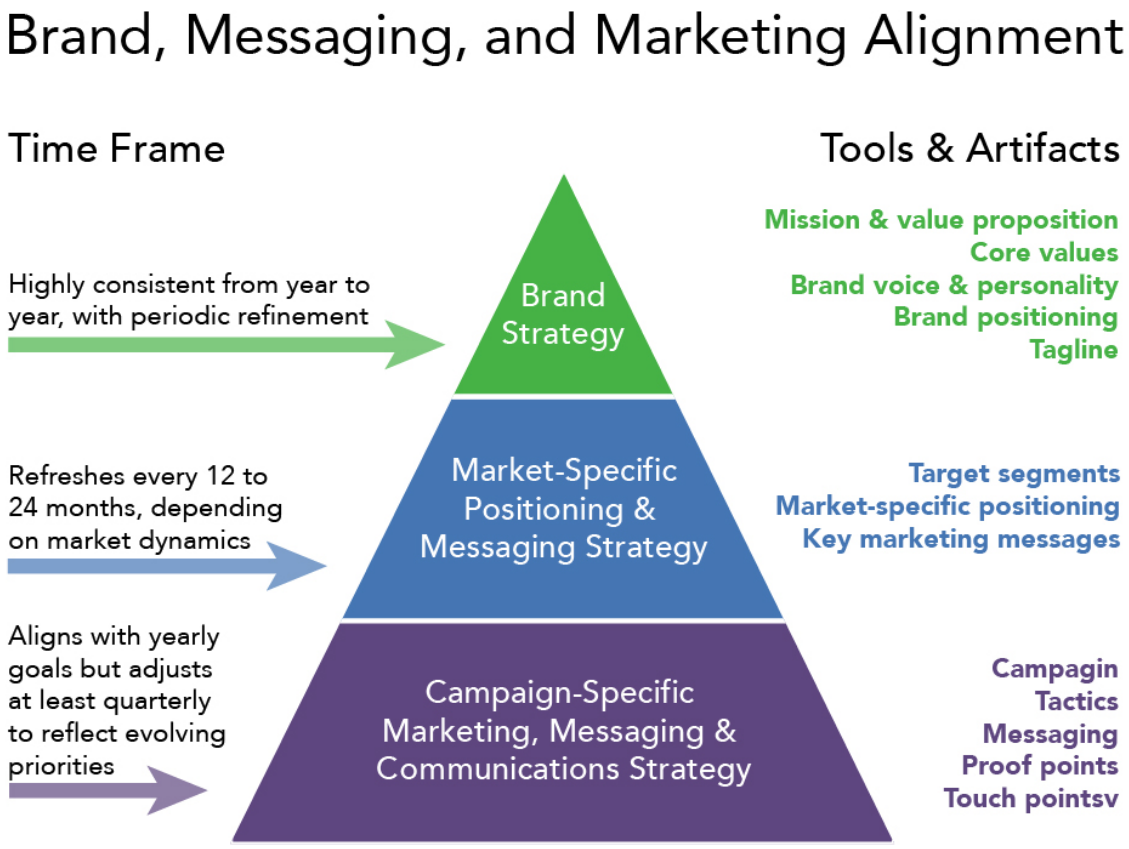
Because brand encompasses much more than just marketing, it is essential for the entire organisation to under-

5. P*ositioning Templates*. (n.d.). EquiBrand Consulting Branding. http://equibrandconsulting.com/templates/positioning-templates.

stand the brand and each person's role in delivering the brand promise to customers. Every employee in every department, from Accounting and Finance to Product Development and Technology (and everyone in between) plays a part. Organisations with great brands look for ways to educate all internal stakeholders about what the brand means and how it connects with their way of doing business. Company leaders offer incentives to employees to encourage innovation and excellence in delivering the brand effectively.

Of course, organisations also communicate about their brands to external audiences—to current and future customers, investors, thought leaders, and influencers, for instance. Brand is embedded in every strategy, tactic, and activity associated with a marketing mix for a given target segment. The brand platform is like a filter that lets through the kinds of communication that an organisation needs to reach its audience, but it keeps out the distracting noise and chatter that might confuse or alienate that audience. The brand platform gives the brand coherence and helps the company stay on track.

Figure 1, below, illustrates the tools and artefacts marketers use to deliver strong alignment between brand, messaging, and other marketing activities. The brand strategy and positioning are very consistent from year to year, and they rely on the tools and artefacts we've discussed in this reading. Market-specific positioning and messaging are designed to reinforce the brand while promoting the organisation's products and services to target segments. The positioning tools and process discussed in the previous positioning module work at this level of marketing alignment. They remain relatively consistent, with marketers reviewing and refining their positioning strategy every twelve to twenty-four months in alignment with the company's strategy, priorities, and performance.



Source: Lumen Learning. Brand Positioning and Alignment, in Module 9. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-brand-positioning/

At the bottom of the alignment pyramid are the day-to-day marketing activities associated with executing the marketing mix to reach target segments. These include marketing campaigns and the tactics, messaging, promotions, and other activities that accompany these campaigns. We'll explore this dimension of marketing activity in much more detail when we turn to integrated marketing communications (IMC).

VIDEO: RED BULL'S EXTREME BRAND ALIGNMENT

The energy drink Red Bull has developed a fun, edgy, maverick identity to match the young adult segment it targets. To stay true to this brand identity, Red Bull's leadership decided not to go with business as usual and only sponsor sporting events like they usually do. In Addition, they set out to control the entire brand experience in a different way by creating new extreme sporting events, for example, they broke a couple of world records at their highly publicized Stratos event.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=408#oembed-1

7.5 NAME SELECTION

Learning Objectives

- Discuss the connection between brand and name
- Outline key steps in the naming process
- Explain the importance of name selection in the success of a brand

How important is naming in the success of a brand? Very important.

Consider the function of a brand name: It identifies a product, service, or company and differentiates it from competitors. But it does much more than that. It can generate attention or make something utterly forgettable. It can evoke positive or negative feelings and emotions. It can capture the imagination or drive someone to boredom. It can make a remarkable or unremarkable first impression.

Naming can be difficult in the crowded, increasingly global marketplace in which businesses operate today. As you understand the role of naming and the systematic process for selecting a new brand name, you can help lead your organization in making wise, informed choices about this essential element of branding.

Learning Activities

- Reading: Name Selection
- Self Check: Name Selection

What's in a (Brand) Name?

A brand identifies a company, product, or service as distinct from the competition. The brand encompasses all the elements that contribute to its identity. A brand's name is an essential part of the package. A brand name may be a product name (like *Windows* or *Gmail*), or it may be the name under which the entire organisation operates (like *Microsoft* or *Google*). Because the name is so central to identity, naming a brand is an integral part of creating the brand's reputation, development, and future success.

To some extent, a brand name amounts to whatever an organisation makes of it: this is the genius of brand building and marketing strategy. Unlikely names have, on occasion, become powerhouse brands, and well-named brands have fizzled out. Naming is important because an ill-conceived or poorly chosen name can torpedo an organisation's chances. At the same time, a great name alone isn't enough to guarantee success.

Naming a Brand

Selecting a brand name is one of the most important product decisions a seller makes. A brand name reflects the overall product image, positioning, and, ideally, its benefits. A successful brand name can enable a product to be meaningfully advertised and distinguished from competitors, tracked down by consumers, and given legal protection. At its best, a brand can provide a carryover effect when customers are able to associate quality products with an established brand name. Attention to naming also helps customers associate products within the same brand family. For example, Apple names its mobile products with a lowercase *i*—for example, iPad, iPod, iPhone. Starbucks names its coffee sizes in Italian.

Apple iPod line as of 2014. From left to right: iPod Shuffle, iPod Nano, iPod Touch. iPod is one of Apple's products named with the distinctive "i." Image available at: https://en.wikipedia.org/wiki/File:IPod_line_as_of_2014.png. License: CC BY-NC: Attribution-NonCommercial

Remember that legally protectable brand names are mandatory if an organisation plans to produce mass advertising for its product or service. Once an organisation starts using a new brand name, it may encounter other organisations' claims to own the rights to that name and threaten legal action. To avoid the risks and potential expenses associated with legal challenges to a brand name, it is essential to use a thorough and systematic process for selecting a brand name.

Selecting a Naming Strategy

Before you start brainstorming new brand names and registering domain names, the company should evaluate which

naming/branding policy to pursue the new offering and choose one of the following three viable options. This process helps determine whether you even need a new brand name.

- **Strategy 1: Own Brand.** A strict branding policy under which a company only produces products and services using its own brand. In this scenario, you need a new brand name.
- **Strategy 2: Private-Label Brand.** An exclusive distributor's brand policy in which a producer does not have a brand of his own but agrees to sell his products only to a particular distributor and carry that distributor's brand name (typically employed by private brands). In this scenario, the new offering will carry the distributor's brand name, so you don't need to create your own new brand.
- **Strategy 3: Mixed Brand.** A mixed-brand policy allows both own-branded and private-label versions of the offering. In this scenario, you need a new brand name for the own-branded product, and the distributor's version of the product will carry the distributor's brand name.

Steps to Develop a New Brand Name

Once you have confirmed that you need a new brand name, you should follow a systematic approach to developing and selecting one, as described below:

1. **Define what you're naming.** Define the personality and distinctive attributes of the company or product to be named.
2. **Check the landscape.** Scan the competitive landscape to identify brand names already active in the category, in order to avoid selecting a name that would easily be confused with competitors.
3. **Brainstorm ideas.** Engage a naming team to brainstorm ideas and generate potential brand names. Due to the challenges of identifying a unique, protectable name in today's global market, the naming team should include some members with prior naming experience. Often, companies hire speciality naming firms to add creative power and expertise to the process. The team should generate lots of ideas, knowing that the vast majority will fall out during the screening process.
4. **Screen out problematic names.** Screen favourite names to make sure they are available to use perceptually (no mind-share conflicts with other known brands), legally (no trademark conflicts) and linguistically (no problems in translation).

    A. Perceptual screening: Start the screening process with thorough Google searches on the names being considered in order to eliminate any that could easily be confused with established players in your product or service category, or a related category. If an established brand name is similar in terms of phonetics (sound), spelling, root word, or meaning, there is probably a conflict. Check with a trademark attorney if you have questions.

    B. Legal screening: The next screening process is to evaluate potential conflicts with registered trademarks that exist in the product or service categories in question. Each country has its own trademark registry, so this search must be performed in each country where you expect to do business using this brand name. While anyone can attempt this process, due to the legal complexities of global trademark law, it's advisable to engage an experienced trademark attorney to review the names, conduct an authoritative search, and provide legal clearance for the shortlist of final names. To learn more about this process, check out the freely available trademark search tools with the United States Patent and Trandemark Office .

C. Linguistic screening: If you plan to use the brand name in different countries and languages, a linguistic screening is a must. Use a naming firm or a linguistic screening firm to screen your final, short-listed name candidates with native speakers from the countries where you plan to operate. The linguistic screening can help you avoid blunders like GM rushing to rename the Buick LaCrosse sedan in Canada when it learned that the word *crosse* means either *rip-off* or *masturbation* in Quebec French, depending on the context.[1]

5. Check domain name and social media availability. If you want to operate a website or social media using your new brand name, you will need an Internet domain name for your website, as well as social media accounts. As you are refining your shortlist of cleared names, check on the availability of domain names and social media handles. If you're lucky, a clear .com, .net, or other domain name will be available to reserve or purchase at a reasonable price, and a clear Twitter or other social media name will also be available. Here are some tips for navigating this process:

A. Use a reputable registry to check availability. When you're checking on domain-name availability, don't just Google domain names at random. Instead, use a reputable domain-name registry like GoDaddy.com or Register.com. When you use Google or other standard search engines, Internet bots track this activity to detect interest in unregistered domain names. Unscrupulous Internet profiteers buy up these domains and then offer them for resale at a significant markup. When you decide to reserve your domain names, be sure to use reputable registries in all the countries where you plan to operate.

B. Look at variations of your chosen name(s). Consider reserving domain-name variations of your chosen brand name(s), either because the original names you want are not available, or because you may want to control close variations to avoid letting them fall into the hands of competitors or Internet profiteers. For example, if your chosen brand name is "Chumber," you may find that *chumber.com* has been taken, but *chumber.net*, *chumber.org*, and *chumbercompany.com* are all available. Although you don't need all of these, you might choose to register them so that no one else can "own" the names and make mischief for you. For social media account names, if your first choice isn't available, explore variations—perhaps a shortened version of your desired name. Remember, for services such as Twitter, shorter names fit better into the limited length of social media posts.

C. Check out your Internet neighbours. For any domain names that are *not* available according to a reputable domain-name registry, *do* a Google search to see where they take you. Some may be operated by other businesses, while others may be "parked" and inoperative. Before you settle on a final domain name for your brand, make sure you investigate where common misspellings of your name might take site visitors. For example, an education technology company seriously considered the brand name "OpenMind" and the domain *openmind.com* until a marketing team member discovered that a variant spelling, *openminded.com*, would take prospective site visitors to an adult entertainment Web site.

D. Reserve domains in geographies where you plan to do business. Consider whether to reserve domain names using different extensions. In other words, not just *yourbrand.com*, but also other extensions including those in other countries where you plan to operate: *yourbrand.mx* for Mexico, *yourbrand.cn* for China, *yourbrand. ca* for Canada, and so forth. If you plan to do business in

1. https://en.wikipedia.org/wiki/Buick_LaCrosse

multiple countries, it is wise to reserve domain names in each of the countries that are strategically important to your company.

6. Customer-test your final short-listed names. It is always wise to conduct market research to test short-listed names among your target customers. This gives you insight into how they will hear, interpret, and think about the names you are considering. Customer testing can reveal nuances or connotations of a name that the naming team may not have considered earlier, for better or for worse. Customer testing results can also be a great tie-breaker if the naming team is split between finalists.

7. Make your final selection. Ultimately, the naming team should select a name with the most potential for creating a strong, differentiated brand, while also minimising the risk from a trademark ownership perspective.

8. Take steps to get trademark protection for your new brand.

Once a final name is chosen, engage a trademark attorney to file a trademark or service mark registration for the new brand. It is part of your company's intellectual property. Ask for legal counsel on where to register your marks based on where you plan to operate globally. While this step may seem expensive and time-consuming, it can protect you and diminish risk for the organisation if your brand name is ever challenged legally. In the long run, it is easier to enter into licensing and other types of agreements if a brand name is registered. Licensing can be a lucrative strategy for strong brands.

Official registered trademark symbol. Registered Trademark Symbol. Provided by: Pixabay. Located at: https://pixabay.com/en/registered-trademark-brand-sign-98574/. License: CC0: No Rights Reserved

7.6 PACKAGING

Learning Objectives

- Discuss the role of packaging in the brand-building process

Imagine yourself standing in the aisle of a grocery store, scanning the shelves and trying to decide which product brand to buy. What catches your eye? What makes you pick something and take a closer look? What influences your decision to drop it into your basket . . . or return it to the shelf?

This critical moment for brands and the purchasing process is often won or lost because of *packaging*. According to Marty Neumeier in his book *The Brand Gap*, "A retail package is the last and best chance to make a sale."[1]

In this section, we'll explore how packaging can play a powerful role in shaping consumer perceptions of brands and influencing buying decisions.

Learning Activities

- Reading: Packaging
- Self Check: Packaging

1. Moré, M. E. (2010, December 14). *The Importance of Product Design and Packaging In Branding.* More Than Branding. http://morethanbranding.com/2010/12/14/product-design-and-packaging/

Creating the Perfect Package

Product packaging is an underappreciated hero in the marketing world. Packaging is supremely functional: it protects the product. It contains the product. It displays the product. It promotes the product. Its design and labelling communicate the product's features. The package itself can even enhance the product's utility, making it better suited to how the customer intends to use it.

If packaging does all these things, why is it undervalued? As a marketing tool, packaging often feels low-tech and old-school in the information age. It's just not as sexy as websites, events, or social media—and yet, it remains a staple of the purchasing environment.

With the increased emphasis on self-service marketing at supermarkets, drugstores, and even department stores, the role of packaging is significant. For example, in a typical supermarket a shopper passes about six hundred items per minute—or one item every tenth of a second. Thus, the only way to get some consumers to notice a product is by in-store displays, shelf hangers, tear-off coupon blocks, other point-of-purchase devices, or, last but not least, effective packages.[1]

Packaging provides an opportunity for a product to jump out and differentiate itself on the crowded, viciously competitive shelves of supermarkets, drugstores, department stores, and other retailers. Every single customer who buys a product inevitably interacts with the packaging, which is what makes it such a potentially powerful touchpoint.

The Roles Packaging Can Play

Marketers invest a great deal in motivational research, color testing, psychological manipulation, and so on in order to learn how the majority of consumers will react to a new package. Based on the results of this research, past experience, and the current and anticipated decisions of competitors, marketers determine the primary role the package will play in relation to the product. They determine which of the following needs to be included:

- **Quality** Example: Lush Handmade Cosmetics won awards for their recyclable gift box, which demonstrates true packaging engineering by morphing into new shapes as it's folded and refolded to reveal a range of 8 products to the consumer. Once products are removed, it becomes a unique keepsake box. Unique and innovative, it was a sell-out in many countries. Taking inspiration from a Rubik's cube, the secret to its design lies in four pairs of interlocking compartments, each with a unique one-way locking tab. When interlocked in a specific order, they create a never-ending, free-flowing design that, even when filled with products, holds its shape.
- **Safety**
  Example: Product protection and child-proofing are standard features in the packaging of Tylenol, Benadryl, Children's Motrin, and other over-the-counter drugs.

1. William O. Bearden and Michael G. Etzel, "Reference Group Influence on Product and Brand Choice, "Journal of Consumer Research, September 1982, pp. 183–194

- **Instruction**
  Example: Dosage information for drugs and "how to use this product" instructions for various appliances, devices, and other products help ensure that consumers use products responsibly and as intended.
- **Legal compliance**
  Example: The Fair Packaging and Labelling Act provides regulations about the types of information food companies must disclose on their product labels: ingredients, calorie counts, nutritional information, serving size and servings per container, and so forth.
- **Distinction**
  Example: Packaging can be distinctive as a familiar, favoured brand: the Coca-Cola or Heinz Ketchup bottles, the Campbell's Soup can, the Kleenex tissue box. Alternatively, designers may use colour, shape, materials, labelling and other packaging features to convey that something is new, different or improved, such as Toblerone's iconic triangle.
- **Affordability**
  Example: In packaged goods, packaging simplicity and plainness—for generic and store-brand products—often suggests greater affordability in the minds of consumers.
- **Convenience**
  Example: Resealable packages have been a welcome, convenient packaging innovation for a variety of products, from baby wipes to sliced bologna to snack foods.

By Ashley Pomeroy – Own work, CC BY 3.0, Link

- **Aesthetic beauty**Example: Perfume manufacturers devote extensive time and attention to making beautiful, distinctive designs for perfume bottles and packaging. One estimate suggests that for each $100 bottle of perfume, the manufacturer's expense for the bottle and packaging is $10. Meanwhile, their expense for the bottle's contents is only about $2.[2]
- **Improved utility**
  Example: Packaging single-serving yoghurt or applesauce in tubes rather than traditional packages makes them usable in more settings and circumstances because they are less messy and no longer require spoons or a tabletop to eat them effectively.
- **Sustainability**
  Example: Environmentally friendly packaging can create brand preference among consumers who are conscious of their carbon footprint. Using fewer chemical-based inks and dyes, less wasteful packaging design, and preference for recycled and recyclable materials all set products apart as "green" and eco-friendly.

2. Thau, B. (2012, March 22). *Behind the Spritz: What Really Goes Into a Bottle of $100 Perfume*. AOL.com. AOL. https://www.aol.com/2012/05/22/celebrity-perfume-cost-breakdown/.

Matching the Package to the Product . . . and the Consumer

Clearly delineating the role of the product should lead to the actual design of the package: its colour, size, texture, location of trademark, name, product information, and promotional materials. Market leaders in the dry food area, such as those offering cake mixes, have established a tradition of including recipes on the packaging. However, there are many questions related to packages. Do the colours complement one another? Are you capitalising on consumer confusion by using a package design similar to that of the market leader? Can the product be made at an acceptable cost? Can it be transported, stored, and shelved properly? Is there space for special promotional deals? Finally, various versions of the product will be tested in the market. How recognisable is the package? Is it distinctive? Aesthetically pleasing? Acceptable by dealers?

Packaging designers can be extremely creative when it comes to incorporating multiple requirements into the container design. The key is to understand what factors most influence customer decisions about what to buy. For a given purchase situation, any of the factors above–or a combination of them–might help a consumer settle on which product to buy.

In some product categories, promoting the package has become almost as important—if not more important—than promoting product performance. This is true for products as diverse as powdered and soft drinks, margarine, perfumes, and pet foods. In the case of Pringles, the stacked potato chip made by Procter & Gamble, a package had to be designed that would protect a very delicate product. Hence the Pringles can. When it introduced Pringles to the market, Procter & Gamble took a risk that retailers and consumers would be open to something new.

Source: Lumen Learning. Packaging, in Module 9. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-packaging/

Packaging and Brand Loyalty

Packaging is one dimension of a brand that can contribute to customer loyalty. Familiar or aesthetically pleasing packaging can simplify the buying process in customers' minds. The package is a clear extension of the brand, and brands with strongly loyal fans (or tribes, as they are sometimes called) may create significant brand equity associated with the package.

GAP's 2010 Logo

An interesting example of this phenomenon is actually a brand misstep on the part of clothing manufacturer Gap. In "8 of the Biggest Marketing Faux Pas of All Time," Amanda Sibley describes what happened when Gap introduced a new logo in October 2010. The company was trying to make its image more contemporary and hip. How long did the logo last?

Source: Lumen Learning. Packaging, in Module 9. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-packaging/

A whopping two days.

Gap quickly put the old logo back into place after unbelievable backlash from the public. Gap, known for everyday basics, tried to redo their image to appeal to a more hip crowd. Unfortunately, they didn't understand who their target market is—people who want the basics and aren't interested in trendy styles. Their loyal customers felt that Gap was changing their image for the worse and lost a connection with the brand. Gap was also unsuccessful at attracting the younger, trendy generation with the redesign (albeit only a two-day redesign), resulting in a failure on two fronts with this new logo.

It wasn't so awful for Gap to pursue a logo redesign, the lesson is simply to stay in touch with your buyer personas so you can ensure your new design reflects them. Marketers focus a lot on metrics—for good rea-

sons—but never underestimate your audience's *feelings* toward your brand. They're harder to quantify, sure, but boy will people speak out when their sensibilities are offended.[3]

3. Sibely, A. (2017, November 28). *8 of the Biggest Marketing Faux Pas of All Time*. HubSpot. http://blog.hubspot.com/blog/tabid/6307/bid/33396/8-of-the-Biggest-Marketing-Faux-Pas-of-All-Time.aspx

7.7 BRAND DEVELOPMENT STRATEGIES

Learning Objectives

- Explain key strategies for developing brands including brand ownership, brand and line extensions, co-branding and licensing

Up to this point, this module has explored the important ingredients of creating brands. But once you've combined the ingredients and you have a fledgling brand, then what?

You need a branding strategy.

Branding strategies are different approaches for expanding the reach of a brand, reinforcing its value, and finding advantageous ways to coexist with other brands. It's a crowded marketplace for brands today, and in the future it will only grow more crowded. As you'll discover, carefully selected and wisely executed branding strategies can multiply the benefits of the brands you build.

Learning Activities

- Reading: Brand Development Strategies
- Self Check: Brand Development Strategies

Managing Brands As Strategic Assets

As organisations establish and build strong brands, they can pursue a number of strategies to continue developing them and extending their value to stakeholders (customers, retailers, supply chain and distribution partners, and of course, the organisation itself).

Brand Ownership

Who "owns" the brand? The legal owner of a brand is generally the individual or entity in whose name the legal registration has been filed. Operationally speaking, brand ownership should be the responsibility of an organisation's management and employees. Brand ownership is about building and maintaining a brand that reflects your principles and values. Brand *building* is about effectively persuading customers to believe in and purchase your product or service. Iconic brands, such as Apple and Disney, often have a history of visionary leaders who champion the brand, evangelise about it, and build it into the organisational culture and operations.

When an organisation truly owns its brand, its efforts are unified around a common symbol of the value it provides to customers. These organisations use their resources wisely to produce marketing that is targeted and effective because they have a sophisticated understanding of the marketplace; they know how their brand and offerings fit into it, which audiences they are targeting, and they have a strategy for successful growth. These advantages lead to disciplined and effective brand management, which enables these organisations to remain relevant in a rapidly changing and often saturated marketplace.

Branding Strategies

A branding strategy helps establish a product within the market and build a brand that will grow and mature. Making smart branding decisions upfront is crucial since a company may have to live with its decisions for a long time. The following are commonly used branding strategies:

Branded House Strategy

A branded house strategy (sometimes called a house brand) uses a strong brand—typically the company name—as the identifying brand name for a range of products (for example, Mercedes Benz or Black & Decker) or a range of subsidiary brands (such as Cadbury Dairy Milk or Cadbury Fingers). Because the primary focus and investment are in a single, dominant house brand, this approach can be simpler and more cost-effective in the long run, provided it is well-aligned with broader corporate strategy.

House of Brands Strategy

With the house of brands strategy, a company invests in building out a variety of individual, product-level brands. Each of these brands has a separate name and may not be associated with the parent company name at all. These

brands may even be in de facto competition with other brands from the same company. For example, Kool-Aid and Tang are two powdered beverage products, both owned by Kraft Foods. The house of brands strategy is well-suited for companies that operate across multiple product categories simultaneously. It allows for greater flexibility in introducing a variety of products of differing quality, which can be sold without confusing the consumer's perception of the company's business or diluting brand perceptions about products targeting different tiers or types of consumers within the same product category.

Competitive Multi-Brand Strategy

In a very saturated market, a supplier can deliberately launch totally new brands in apparent competition with its own existing strong brand (and often with identical product characteristics) to soak up some of the market share. The rationale is that having three out of twelve brands in such a market will give a greater overall share than having one out of ten. Procter & Gamble is a leading exponent of this philosophy, running as many as ten detergent brands in the U.S. market. In 2015, hotel giant Marriott International operated sixteen different hotel chains across various pricing tiers, including some chains that directly compete with one another. A sampling of these includes Fairfield Inn, Springhill Suites, Residence Inn, Courtyard, Marriott, JW Marriott, and The Ritz-Carlton, among others.

Cannibalisation is a particular problem with the multi-brand strategy. As will be discussed further in the product marketing module, cannibalisation occurs when the new brand takes business away from an established one, which the organisation also owns. This may be acceptable (indeed expected) if there is a net gain overall.

Brand Families or Umbrella Branding

Similar to a branded house strategy, a brand family uses a single brand name for multiple products. However, brand families–also called umbrella branding–may also be used in a house of brands strategy to extend the reach of some of the company's brands. For instance, consumer products powerhouse Procter & Gamble manages many popular brands, including Tide (laundry detergent), Pampers (disposable diapers), Ivory (soap), and Olay (skin care and beauty products), among many others. Each of these brands constitutes its own family, with multiple products carrying the same brand name.

Attitude Branding and Iconic Brands

Attitude branding is a strategy that represents the larger feeling a brand comes to embody. The idea is that the brand's feeling or attitude transcends the specific products being consumed. Examples of companies that use this approach effectively include:

- Nike: "Just do it"
- Apple: "Think different"
- Patagonia: "We're in business to save the planet."

Effective attitude branding can transform strong brands into iconic, lifestyle brands that contribute to the consumer's self-expression and personal identity.

Component Branding

Some suppliers of important services or product manufacturing components try to guarantee positions of preference by promoting these components as brands in their own right. For example, Intel created a competitive advantage for itself in the PC market with the slogan (and famous sticker) "Intel Inside." As a B2B (business-to-business), Intel was marketed as a component of IBM hardware solutions to consumers and businesses. In the digital space, a similar strategy has been successful with Shopify's entrepreneurial brand as an e-commerce platform, utilising its "Let's Make You a Business" campaign to help users leverage their brand. Watch the video on how Cee Cee's closet builds their business using the digital tool kit of Shopify. These success stories have made Shopify Canada's largest company in May 2020, surpassing RBC, the world's 14th largest bank.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=424#oembed-1

Private-Label or Store Branding

Also called store branding, private-label branding has become increasingly popular. In cases where the retailer has a particularly strong identity, the private label may be able to compete against even the strongest brand leaders and may outperform those products that are not otherwise strongly branded. The Westin's ownership of Loblaw has expanded its brands and offerings in Canada and Europe. Loblaw operates a private label program that includes grocery and household items, clothing, baby products, pharmaceuticals, cellular phones, general merchandise, and financial services. Loblaw brands include President's Choice, No Name, Joe Fresh, T&T, Exact, Life, Seaquest, Azami, and Teddy's Choice.

No-Brand Branding

Several companies have successfully pursued no-brand strategies by creating packaging that mimics the simplicity of generic brands. No brand branding can be considered a type of branding since the product is made conspicuous by the absence of a brand name.

Loblaw again offers both store and product concepts for No-Frills stores, featuring No-Name products with a distinctive yellow packaging. It is recognized as and by simply by the colour of the cap of this cleaning products company.

Personal and Organisational Brands

Personal and organisational branding are strategies for developing a brand image and marketing engine around individual people or groups. Personal branding treats persons and their careers as products to be branded and sold to target audiences. Organisational branding promotes the mission, goals, and/or work of the group being branded. The music and entertainment industries provide many examples of personal and organisational branding. From Justin Bieber to George Clooney to Kim Kardashian, virtually any celebrity today is a personal brand. Likewise, bands,

orchestras, and other artistic groups typically cultivate an organisational (or group) brand. Faith branding is a variant of this brand strategy, which treats religious figures and organisations as brands seeking to increase their following. Mission-driven organisations such as the Girl Scouts of America, the Sierra Club, the National Rifle Association (among millions of others) pursue organisational branding to expand their membership, resources, and impact.

Crowd-Sourced Branding

Crowd-sourced branding is the phenomenon of brands being created "by the people" for the business, which is the opposite of how branding traditionally works (businesses create the brands). This method minimises the risk of brand failure, since the people who might reject the brand are the ones involved in the branding process. The drawback is that the business cannot fully control these brands because they are the product of crowdsourcing and, in effect, are owned by the crowd.

An interesting example of crowd-sourced branding is the Timbers Army, the independent fan organisation of the Portland Timbers Major League Soccer (MLS) Team. The Timbers Army was founded by fans and operates independently of the MLS team and Portland Timbers management. Although the organisations coordinate in many areas, ultimately, the fan organisation gets to assert and control its own brand identity.

Iconic brands such as Pepsi Co have also engaged in crowdsourcing with a social media component, including product and private label branding strategies such as Frito-Lay's 'Do us a Flavour' campaign.

Place Branding and Nation Branding

The developing fields of place branding and nation branding operate on the assumption that places compete with one another to attract people, investment, tourism, economic development, and other resources. With this in mind, public administrators, civic leaders, and business groups may team up to "brand" and promote their city, region, or nation among target audiences. Depending on the goals they are trying to achieve, targets for these marketing initiatives may be real estate developers, employers and business investors, tourists and tour/travel operators, and so forth. While place branding may focus on any given geographic area or destination, nation branding aims to measure, build, and manage the reputation of countries.

Co-Branding

Co-branding is an arrangement in which two established brands collaborate to offer a single product or service that carries both brand names. In these relationships, generally, both parties contribute something of value to the new offering that neither would have been able to achieve independently. Effective co-branding leverages the complementary strengths of existing brands. It can also allow each brand an entry point into markets in which they would not otherwise be credible players.

The following are some examples of co-branded offerings:

- Delta Air Lines and American Express offer an entire family of co-branded credit cards; other airlines offer similar co-branded cards that provide customer rewards in the form of frequent flyer points and special offers.
- Home furnishings company Pottery Barn and the paint manufacturer Benjamin Moore co-brand seasonal colour palettes for home interior paints

- Forever 21 worked with the USPS to create an exclusive line of clothing featuring USPS branding.
- Automaker Fiat and toymaker Mattel teamed up to celebrate Barbie's fiftieth anniversary with the nail-polish-pink Fiat 500 Barbie car.

Co-branding is a common brand-building strategy, but it can present difficulties. There is always risk around how well the market will receive new offerings, and sometimes, despite the best-laid plans, co-branded offerings fall flat. Also, these arrangements often involve complex legal agreements that are difficult to implement. Co-branding relationships may be unevenly matched, with the partners having different visions for their collaboration, placing different priorities on the importance of the co-branded venture, or one partner holding significantly more power than the other in determining how they work together. Because co-branding affects the existing brands, partners may struggle with how to protect their current brands while introducing something new and potentially risky.

Brand Licensing

Brand licensing is the process of leasing or renting the right to use a brand in association with a product or set of products for a defined period and within a defined market, geography, or territory. Through a licensing agreement, a firm (licensor) provides some tangible or intangible asset to another firm (licensee) and grants that firm the right to use the licensor's brand name and related brand assets in return for some payment. The licensee obtains a competitive advantage in this arrangement, while the licensor obtains inexpensive access to the market in question.

Licensing can be extremely lucrative for the brand owner, as other organisations pay for permission to produce products bearing a licensed name. The Walt Disney Company was an early pioneer in brand licensing, and it remains a leader in this area with its wildly popular entertainment and toy brands: Star Wars, Disney Princesses, Toy Story, Mickey Mouse, and so on. Toy manufacturers, for example, pay millions of dollars and vie for the rights to produce and sell products affiliated with these "super-brands."

A licensing arrangement contains risk, in that if the licensing venture is very successful, the profit potential is limited by the terms of the licensing agreement. If the venture is unsuccessful, the licensee incurs a substantial loss, and the failure may reflect poorly on the original brand. Additionally, a licensor may be overly controlling about how the licensed offering is designed, produced, distributed, marketed, or sold, making it challenging for the licensee to meet the licensor's expectations or requirements. Conversely, a licensor might make a long-term commitment to a firm, and that firm could be less capable than expected, leading to a botched implementation of the licensing venture. Or, the licensee may be unwilling to invest in product quality, marketing, distribution, or other areas needed to be successful.

Franchising represents a very popular type of licensing arrangement for many consumer products firms. Holiday Inn, Hertz Car Rental, Pizza Pizza and McDonald's have all expanded globally through franchising. In a franchise, the entity purchasing the franchise (the franchisee) typically pays an up-front fee plus a percentage of revenue in return for the right to use branded assets such as recognized brand name(s), proven products, building design and decor (as in a fast-food restaurant chain), business processes, and so forth.

Lines, Extensions, and Brand Extensions

Organisations use line extensions and brand extensions to leverage and increase brand equity.

A company creates a *line extension* when it introduces a new variety of offerings within the same product category. To illustrate with the food industry, a company might add new flavours, package sizes, nutritional content, or prod-

ucts containing special additives in line extensions. Line extensions aim to provide more variety and hopefully capture more of the market within a given category. More than half of all new products introduced each year are line extensions. For example, M&M candy varieties such as peanut, pretzel, peanut butter, and dark chocolate are all line extensions of the M&M brand. Diet Coke™ is a line extension of the parent brand, Coke ™. While the products have distinct differences, they are in the same product category.

A *brand extension* moves an existing brand name into a new product category, with a new or somehow modified product. In this scenario, a company leverages the strength of an established product to launch a new product in a different category, hoping that the popularity of the original brand will increase the receptivity of the new product. An example of a brand extension is the offering of Jell-O pudding pops in addition to the original product, Jell-O gelatin. This strategy enhances brand awareness and increases profitability from offerings across multiple product categories.

Another form of brand extension is a licensed brand extension. In this scenario, the brand owner collaborates with a partner (sometimes a competitor), who assumes the responsibility of manufacturing and selling the new products, typically paying a royalty every time a product is sold.

Line extensions and brand extensions are crucial tools for companies, as they mitigate the financial risk associated with new-product development by leveraging the equity in the parent brand name to enhance consumers' perceptions and receptivity towards new products. Due to the established success of the parent brand, consumers will have instant recognition of the product name and be more likely to try the new line extension.

Additionally, launching a new product is a time-consuming process, and it requires a substantial budget to create awareness and promote the product's benefits. As a result, promotional costs are much lower for a line extension than for a completely new product. More products expand the company's shelf-space presence, too, thereby enhancing brand recognition. For example, consider Campbell's Soups™: the strength of the Campbell's™ brand lowers the costs of launching a new flavour of soup, such as Healthy Request Roasted Chicken with Country Vegetables Soup™, due to the established brand name and package design. Consumers who have enjoyed Campbell's Chicken Noodle Soup™ are likely to try Campbell's Healthy Request Roasted Chicken with Country Vegetables Soup™, even with minimal impact from advertisements and promotions.

Overall, the main benefits of line extensions and brand extensions are the following:

- Expand company's shelf-space presence
- Gain more potential customers
- Offer customers more variety
- Greater marketing efficiency
- Greater production efficiency
- Lower promotional costs
- Increased profits

Risks of Brand/Line Extension

While brand-extension strategies can offer significant benefits, they also carry substantial risks, potentially resulting in a diluted or severely damaged brand image. Poor choices for brand extension may overextend the brand so that it no longer stands for something meaningful and valued by consumers. This phenomenon is called *brand dilution*. It causes the core brand to deteriorate, and it damages brand equity. According to research, there is a higher rate of brand extension failures than successes. Studies also suggest that when brand extensions fail, not only does the new

product fail but the core brand's image and equity also suffer. When products fail, negative associations and a poor communications strategy can harm the parent brand and even an entire brand family.

A common, visible example of brand dilution occurs when fashion and designer companies extend brands into fragrances, shoes, and accessories, furniture, hotels, vehicles, and beyond. Often the products being introduced are no different from the offerings already available in the market, with the exception of an added brand name (and probably a higher, designer price tag). Brand dilution is almost guaranteed when consumers no longer see the branded product adding value. Brand dilution can also occur when new products fail to meet the standards consumers expect in terms of quality, workmanship, price, design, or other key brand-differentiating features. An inferior brand extension leads to negative associations that reflect poorly on the original brand. Customers no longer trust the brand across all product categories, and they may be less willing to pay a premium price for it in the future.

Line extensions carry similar risks. If the new line extension fails to satisfy, consumers' attitudes toward other products carrying the same brand name may be damaged. Additionally, there is potential for intra-firm competition between the parent product and the line extension or between two or more line extensions. The key to avoiding intra-firm competition is to clearly differentiate between products. Although similar, the products must be different enough that they will not compete with one another as much as they will with the brands of rival companies.

7.8 PUTTING IT TOGETHER: BRANDING

Investigating Brand Power

As noted earlier in this module, every year organizations conduct analyses and publish lists of the world's top brands. Forbes publishes a list of the *most valuable* brands in terms of dollar value. Interbrand analyzed what *Business Insider* called the *most powerful* brands in terms of the companies' "financial performance, their role in purchasing decisions, and their competitive strength."[1] The results are summarized in the following table:

Forbes Most Valuable Brands and Business Insider's Most Powerful Brands

Most *Valuable* Brands in 2019[2]	**Most *Powerful* Brands in 2018**[3]
1. Apple	1. Apple
2. Google	2. Google
3. Microsoft	3. Amazon
4. Amazon	4. Microsoft
5. Facebook	5. Coca-Cola
6. Coca-Cola	6. Samsung
7. Samsung	7. Toyota
8. Disney	8. Mercedes-Benz
9. Toyota	9. Facebook
10. McDonald's	10. McDonald's

Source: Lumen Learning. Putting It Together: Branding, in Module 9. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/putting-it-together-branding/

Most of the brands on both lists are household names. Not surprisingly in our present information age, technology companies are heavily represented on both the most valuable brand list and the most powerful brand list.

1. Chenel, T. (2018, October 9). *These are the 17 most powerful brands in the world.* Business Insider. https://www.businessinsider.com/these-are-the-17-most-powerful-brands-in-the-world-2018-10.

2. Swant, M. (n.d.). *The World's Most Valuable Brands.* Forbes. https://www.forbes.com/powerful-brands/list/.

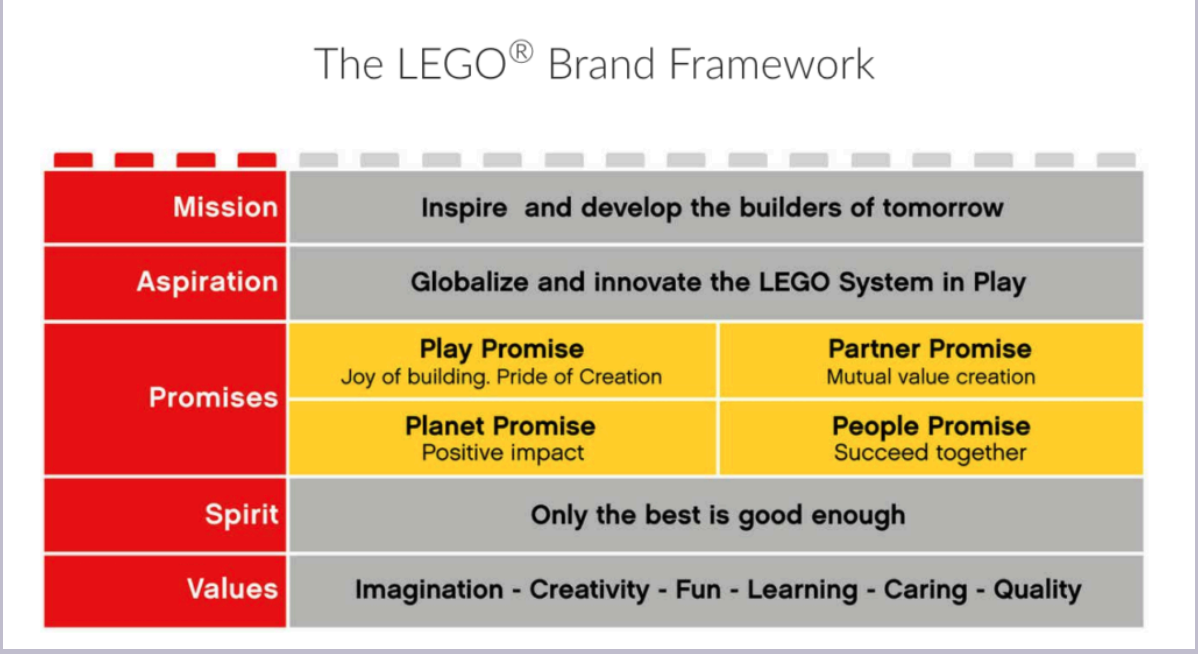
3. Interbrand Releases 2018 Best Global Brands Report. (n.d.). Businesswire. https://www.businesswire.com/news/home/20181003005944/en/Interbrand-Releases-2018-Best-Global-Brands-Report#:~:text=Interbrand%20has%20announced%20Apple%2C%20Google,2018%20Best%20Global%20Brands%20report.

All of these brands offer products and services that have created, shaped, or fundamentally redefined the categories in which they operate. What sets these companies apart from their competitors who didn't make the list is how they have invested in brand building to support their broader corporate goals for growth and success.

Behind the Power Brand: LEGO

Toymaker LEGO provides a great example of the brand-alignment and brand-building strategies explored in this module. Anyone who has wandered through the LEGO section of a toy store or a department store knows that the company understands its target audiences very well: young children (ages 1.5 to 11) who like to build things and parents who want to guide their children's development and success—in other words, virtually all children and all parents.

LEGO articulates perfectly the brand promise its toys deliver to these audiences: *Joy of building, pride of creation.* As illustrated in the LEGO Brand Framework (see Figure 1, below), the company values are in step with this promise: imagination, creativity, fun, learning, caring, and quality.



Source: Lumen Learning. Putting It Together: Branding, in Module 9. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/putting-it-together-branding/

The company has also developed a fairly elaborate definition–and a name–for its brand personality: My LEGO Friend. What is this friend like?

> My LEGO friend . . . has a vivid imagination . . . is curious and likes to try out new things . . . is always positive and optimistic . . . is fun to be around with . . . enjoys bringing people together . . . is friendly and

> approachable . . . is caring for others . . . doesn't get bothered by the little things . . . can comfortably adapt to play different roles[4]

With such a clear articulation of its brand promise, brand personality, and the related benefits it aspires to deliver, LEGO employees have clear guidance about what they need to accomplish. The next step is to effectively deliver on the brand promise with products, services, and marketing activities that guarantee that children and their parents will experience *joy* and *pride* in connection with LEGO Bricks. Here is just a sampling:

- **Product Design:** Easy, step-by-step instructions that do not require reading, in every building kit. After a short learning curve, children can assemble age-appropriate LEGO creations without help from adults.
- **Events:** Free, monthly "Mini Model Build" events at LEGO toy stores around the world, where children can build and take home a mini model, free of charge.
- **Fan Communications:** A free quarterly magazine, available online or mailed to a child's home, filled with stories, contests, fan photos, building ideas to capture the imagination, and, of course, the latest generation of LEGO products any child might desire.
- **Licensing Agreements:** Product lines offering toys linked to popular children's entertainment brands such as Disney Princesses, Star Wars, Frozen, Hello Kitty, and Minecraft.
- **Theme Parks:** LEGOLAND amusement parks designed around the LEGO theme, inviting fans to experience a life-size world of LEGO and see the wonders of the world constructed out of LEGO bricks.

4. *Lego Brand Identity & Experience*. Lego. Lego, 2014. http://www.hothbricks.com/pdf/6123880.pdf.

It is worth noting that LEGO considers seriously only the activities that are in keeping with its brand, but also the activities that might undermine it. In October 2015, the Chinese dissident artist Ai Weiwei tried to place a bulk order of LEGO bricks for an art exhibition he was planning at the National Gallery of Victoria, Australia, on the subject of free speech. Somewhat surprisingly for many LEGO fans, the company declined Weiwei's request.

According to the artist, the company indicated that "they cannot approve the use of LEGOs for political works." This explanation was later confirmed by a company spokesman.

LEGOLAND. Source: Lumen Learning. Putting It Together: Branding, in Module 9. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/putting-it-together-branding/

Weiwei went on to denounce the company publicly in social media, accusing it of censorship and discrimination. He also suggested that LEGO's decision was motivated by trying to protect its commercial interests in China. In response to the social media flurry, many LEGO owners offered to donate their bricks to help Weiwei complete the project. Donation centers were set up in eleven cities (including Beijing) to help the artist's cause. LEGO itself faced public criticism from longtime fans who were disappointed by its decision. People cited other artistic projects with political themes that LEGO had supported, complaining about the company's apparently inconsistent behavior.[5]

So why would LEGO make this decision, and how does it relate to brand management? The company was concerned about politicizing its brand and product, and it didn't want to get embroiled in a controversy that might overshadow the universal, positive experience at LEGO's core: *Joy of building, pride of creation.*

Then, in January 2016, the Weiwei vs. LEGO story broke again, but this time with a different ending. In the intervening weeks, the artist had continued to lobby LEGO's executive leadership to change their position, and eventually they agreed.[6] When people submit bulk order requests, the company will no longer inquire about the "thematic purpose" of the project. Instead, it will simply require any publicly displayed works to make it clear that LEGO does not endorse or support the project. According to a company statement,

5. Ryan, F. (2015, October 25). *Ai Weiwei swamped by Lego donation offers after ban on use for 'political' artwork*. The Guardian. http://www.theguardian.com/artanddesign/2015/oct/25/ai-weiwei-swamped-by-lego-donation-offers-after-ban-on-use-for-political-artwork.

6. Curry, C. (2016, January 13). *The Chinese Artist Ai Weiwei Has Convinced Lego to Change Its Policy on Political Projects*. Vice https://news.vice.com/article/the-chinese-artist-ai-weiwei-has-convinced-lego-to-change-its-policy-on-political-projects

> Previously, when asked to sell very large quantities of LEGO® bricks for projects, the LEGO Group has asked about the thematic purpose of the project. This has been done, as the purpose of the LEGO Group is to inspire children through creative play, not to actively support or endorse specific agendas of individuals or organizations.
>
> However, those guidelines could result in misunderstandings or be perceived as inconsistent, and the LEGO Group has therefore adjusted the guidelines for sales of LEGO bricks in very large quantities. As of January 1st, the LEGO Group no longer asks for the thematic purpose when selling large quantities of LEGO bricks for projects. Instead, the customers will be asked to make it clear – if they intend to display their LEGO creations in public – that the LEGO Group does not support or endorse the specific projects.[7]

With the opportunity for deeper consideration, LEGO found a new policy that is consistent with its brand promise and purpose of supporting creative activity, while at the same time protecting the LEGO brand from being politicized.

Navigating the complexities of brand management is never simple. As LEGO discovered, even hard-core fans may turn away from a beloved brand. However, brand building is a long-term endeavor. Over time, most super-brands demonstrate that staying true to consistent, well-designed brand positioning pays off.

7. Trangbæk, R. R. (2016, January12). *Adjusted guidelines for bulk sales.* Lego Newsroom. http://www.lego.com/en-gb/aboutus/news-room/2016/january/adjusted-guidelines-for-bulk-sales.

CHAPTER 8: MARKETING INFORMATION AND RESEARCH

Learning Objectives

- Understand the value of marketing information and research
- Explain the role of marketing information in helping firms understand and reach consumers
- Describe the key types of marketing information including internal data, competitive intelligence and marketing research
- Outline a standard process for using marketing research to address an organization's strategic questions
- Recognize alternative methods for conducting marketing research, including primary and secondary research methods
- Apply a simple data collection technique
- Identify major sources of available market data
- Explain how Customer Relationship Management (CRM) systems can help organizations manage and gain customer insights from marketing information
- Use marketing information to inform the marketing strategy

8.1 WHY IT MATTERS: MARKETING INFORMATION AND RESEARCH

Why use marketing information and research to develop marketing strategies for organizations?

Your uncle Dan owns an independent bookstore called Bookends in Blytheville, Arkansas. You drop in to see him whenever you're in the neighborhood to catch up and borrow some graphic novels. (That's you in the picture.)

When you visit this time, Dan sits you down in a corner and tells you he needs help. "Sales are down," he says, "and rent's going up. It's killing me. I'd say I've got six months to turn things around or I'm done. The end of Bookends. Are you still learning about marketing? Your mom said you're taking a class. Got any bright ideas? Maybe some whiz-bang advertising?" He grins and punches you lightly on the shoulder.

You start to tell him that marketing isn't just advertising . . . but instead you say, "I don't know, Dan. I'll have to think about it."

So, you do think about it. You don't know everything about marketing yet, but you've learned this: Your uncle needs to understand his customers—that's where marketing starts and ends. Who are Dan's customers, and what's up with them? Why aren't they buying as much as they used to? How can you find out more about what they want?

These are big, important questions. For now, they all have one answer: marketing information and research.

Read on if you want to save your uncle's bookstore . . .

Marketing information and marketing research are tools that organizations use to understand what's happening in the markets they serve.

Why do marketing information and research matter? Because no one has all the answers all the time. Because people and attitudes and behaviors change. Because customers, competitors, the economy, and other factors can all affect your success. Marketing is an increasingly data-rich field, and these days, doing it well means using all the information you can to gain insights into what your customers want and how you can give them value. Without that information, you're trying to shoot a target in the dark.

8.2 IMPORTANCE OF MARKETING INFORMATION

Learning Objectives

- Define marketing information
- Explain why organizations use marketing information to provide customer insight.
- Explain the role of marketing information in helping organizations understand and reach customers

Marketers are fortunate to work in an information-rich environment. They don't have to make decisions based on gut feeling or blind luck. These days, many valuable sources of marketing information are available to guide marketers' thinking, choices, and actions. While it's true that this information may be more readily accessible in some organizations than others, it's important for marketers to know what to look for and how to find it in order to make wise decisions about marketing strategy and execution.

Learning Activities

- Reading: The Importance of Marketing Information
- Case Study: Juicy Fruit Gum

Fresh Customer Insights

Effective marketing starts with a strong knowledge of your customers: the kind of knowledge that gives you unique insights into what they want and how to satisfy them better than the competition. The most reliable source of fresh customer insights is good **marketing information**. Useful marketing information may come from a variety of sources both inside and outside your organization. Marketing information is generated by a variety of different activities, including marketing research.

Marketing research is a systematic process for identifying marketing opportunities and solving marketing problems, using customer insights that come out of collecting and analyzing marketing information. The mechanics of marketing research must be controlled so that marketers uncover the relevant facts to answer the problem at hand. Control over this fact-finding process is the responsibility of the marketing research director, who must correctly design the research and carefully supervise its execution, to ensure it yields the customer insights the organization needs.

A marketing information system is a combination of people, technologies, and processes for managing marketing information, overseeing market research activities, and using customer insights to guide marketing decisions and broader management and strategy decisions.

Knowledge Is Power Against the Competition

The business environment is increasingly competitive. With something as simple as a Google search, customers have unprecedented opportunities to explore alternatives to what any single company offers. Likewise, companies have ample opportunity to identify, track, and lure customers away from their less-vigilant competitors. A regular infusion of fresh customer insights can make all the difference between keeping customers and losing them. Marketing information and research are essential tools for marketers and the management team as they align strategy with customer wants and needs.

Consider the following examples:

- Before introducing OnStar, the first-ever embedded wireless service in cars, GM used marketing research to understand what types of applications would make consumers most interested in subscribing to the service and how much they would pay for it. Of all the benefits OnStar could offer, the research helped GM prioritize how the initial service would provide value, focusing on driver assistance and security. Research also helped determine OnStar pricing to help the company build a large subscriber base quickly.[1]
- Enterprise systems provider PeopleSoft recruited a diverse set of universities as early-adopter "Beta" partners to provide input as it designed a new student information system for higher education. This marketing research helped PeopleSoft create a versatile system that could support the needs of a variety of colleges and universities,

1. Vincent P. Barabba, *Surviving Transformation: Lessons from GM's Surprising Turnaround*, pp 46–50, https://books.google.com/books?id=VvbDYad7cLoC&pg

ultimately leading to strong receptivity and market share when the new system became widely available.[2]

What Should Marketers Investigate Using Marketing Information?

An easy—and truthful—answer to this question is "everything." There is no aspect of marketing to which information and research do not apply. Every marketing concept and every element involved in the marketing management process can be subjected to a great deal of careful marketing research and inquiry. Some important questions include:

- Who is the customer?
- What problems is the customer trying to solve with a given purchase?
- What do they desire in the way of satisfaction?
- How does the customer get information about available choices?
- Where do they choose to purchase?
- Why do they buy, or not buy?
- When do they purchase?
- How do they go about seeking satisfaction in the market?

Seeking answers to these questions yields insights into the customer's needs, perceptions, and behaviors. Another area in which research is critical is profitability. Organizations need to forecast sales and related costs in order to understand how their operations will be profitable. They also need to plan competitive marketing programs that will produce the desired level of sales at an appropriate cost. The analysis of past sales and interpretation of cost information are important in evaluating performance and providing useful facts for future planning. All these activities rely on marketing information and a rigorous marketing research process to produce insights managers can trust and act on.

When to Use Marketing Information and Research

Many marketing decisions are made without consulting marketing information or the use of formal marketing research. For example, a decision-maker may feel she already knows enough to make a good decision. The time required to investigate a question or conduct formal marketing research may not be available. In other cases, the cost of obtaining the data is prohibitive, or the desired data cannot be obtained in reliable form. In a few instances, there may be no choice among alternatives and therefore no decision to make because there is little value in spending time and money to study a problem if there is only one possible solution. But in most business situations, marketers and managers must choose among two or more courses of action. This is where fact-finding, marketing information, and research enter to help make the choice.

Marketing information and research address the need for quicker, yet more accurate, decision-making by the marketer. These tools put marketers close to their customers to help them understand who the customers are, what they

2. Proquest, "First We Built, Now We Buy: A Sociological Case Study for Enterprise Systems in Higher Education," pp 292–203, https://books.google.com/books?id=rgIAaigKQBIC&pg

want, and what competitors are doing. When different stakeholders have very different views about a particular marketing-related decision, objective information and research can inform everyone about the issues in question and help the organization come to an agreement about the path forward. Good research should help align marketing with the other areas of the business.

Marketers should always be tapping into regular sources of marketing information about their organization and industry in order to monitor what's happening generally. For example, at any given time marketers should understand how they are doing relative to sales goals and monitor developments in their industry or competitive set.

Beyond this general level of "tuning in," additional market research projects may also be justified. As a rule, if the research results can save the company more time, money, and/or risk than it costs to conduct the research, it is wise to proceed. If the cost of conducting the research is more than it will contribute to improving a decision, the research should not be carried out. In practice, applying this cost-test principle can be somewhat complex, but it provides useful guidance about when marketing research is worthwhile. Ultimately, successful marketing executives make decisions on the basis of a blend of facts and intuition.

Fact: Top Performers Research Customer Preferences

In 2010, the management consultancy McKinsey published research about the difference between organizations that produced top-performing products and those that produced under-performing products. The use of marketing research was a striking differentiator:

> More than 80 percent of the top performers said they periodically tested and validated customer preferences during the development process, compared with just 43 percent of bottom performers. They were also twice as likely as the laggards to research what, exactly, customers wanted.[3]

The study also identified other differences between top and bottom performers, but an underlying theme was the emphasis successful projects and companies placed on understanding their customers and adjusting course when necessary to better address customers' needs. This research provides more than anecdotal evidence that marketing research and well-applied marketing information can make a substantial contribution to an organization's success.

3. http://www.mckinsey.com/insights/operations/the_path_to_successful_new_products

Discovering Why They Chew

Back in the nineties, Juicy Fruit Gum, the oldest brand of the Wm. Wrigley Jr. Company was not chewing up the teen market, gum's top demographic. In 1997, the company found itself under pressure from competitors. Sales and market share were down. How could Wrigley get more kids to go for their famous gum?

Wrigley went to the source to find out. Marketing researchers approached teens who chewed five or more sticks of Juicy Fruit each week and gave them a homework assignment: Find pictures that remind you of Juicy Fruit gum and write a short story about it. When the kids shared their stories, Wrigley learned that they chew Juicy Fruit because it's sweet. They said it refreshed and energized them.

Wrigley's ad agency, BBDO, confirmed what the teens were saying. Conducting survey research, BBDO asked more than four hundred heavy gum chewers to rate various brands by attributes that best represented them. For Juicy Fruit, respondents picked phrases such as "has the right amount of sweetness" and "is made with natural sweetness."

Another of BBDO's studies investigated why teens in particular chew gum. Was it to cope with stress? Or because they forgot to brush their teeth before going to school? Nearly three out of four teens reported popping a stick of gum into their mouth when they craved something sweet. And Juicy Fruit was the top brand they picked to fulfill that need. (Rival chewing-gum brand Big Red was a distant second.)

Chewing on the Results

Although the marketing research conducted by Wrigley Co. was fairly simple, it provided a new direction for the company's marketing strategy to capture more of the essential teen market. BBDO developed four TV commercials with the "Gotta Have Sweet" theme. Roughly 70 percent of respondents voluntarily recalled the Juicy Fruit name after watching the commercial (the average recall for a brand of sugar gum is 57 percent). Sales of 100-stick boxes of Juicy Fruit rose 5 percent after the start of the ad campaign, reversing a 2 percent decline prior to it. Juicy Fruit's market share also increased from 4.9 percent to 5.3 percent—the biggest gain of any established chewing-gum brand during the year following the campaign.

In this case, marketing research paid off with better customer insights that marketers translated into improved product positioning, messaging, advertising, and ultimately market share.

8.3 TYPES OF MARKETING INFORMATION

Learning Objectives

- Explain the types of insights provided by each type of marketing information
- Describe how organizations manage marketing information
- Describe key types of marketing information including internal data, competitive intelligence, and marketing research

Marketing information and research are most effective when they feed an ongoing awareness of what's happening with customers, their perceptions, and purchasing decisions. The next section of this module explores different types of information that contribute to the customer insights that inform your organization, strategy, and the marketing mix.

Learning Activities

- Reading: Types of Marketing Information

Illuminating the Marketing Picture

There are three primary types of marketing information marketers use to gain insights that will contribute to wise marketing choices: *internal data*, *competitive intelligence,* and *marketing research*.

Internal Data

Internal data consists of the information companies collect about their customers and prospective customers, typically as part of their internal operations. Marketing departments, for example, maintain information about the interest and leads they generate from prospective customers and how they are interacting with these contacts. They may capture information used for segmentation and targeting purposes, such as geographic location, gender, age, buying behaviors, and communication preferences. Information about website visitors, traffic, and other customer engagement activities can be another useful type of internal data. Additionally, sales teams capture and maintain information about who is buying the product, where buyers are located, buying patterns, and behaviors. Sales and marketing teams may also maintain information about customer references, success stories, and how prospective customers are progressing toward becoming new clients.

Other parts of the organization also capture and maintain data that may be useful as marketing information. Accounting and billing departments track information about customers such as how much they spend with the organization, when they buy, and other payment details. Product managers and customer support organizations maintain information about customers implementing or using products, problems or issues they run into, and satisfaction levels with the company and products.

Organizations capture and maintain internal data by using information systems and databases shared across multiple departments. A database is a set of structured data accessible via a computer, and the data can be organized so that it's available for a variety of different uses, such as marketing or financial analysis. Today's powerful computers, cheap data storage, and the era of Big Data mean that data is at the heart of many companies marketing strategies. Shared information systems may include large enterprise systems designed to support business processes and functions, customer support systems, and customer relationship management (CRM) systems, among others.

Database marketing, also known as marketing analytics, takes internal data several steps further. Large databases collect massive amounts of data from a variety of sources: customer demographic and profile data linked to in-store and online purchasing history, website search terms, page views, social media posts, Internet of Things (IoT), and other data. In a process called data mining, computer algorithms search for patterns in the data and generate recommendations and insights about how to increase sales.

With access to accurate, up-to-date internal data, marketers gain a better understanding of who the organization is serving and how it is performing relative to its goals for sales, customer satisfaction, and other priorities. Marketers rely on internal data to manage communications and interaction with customers and prospects, as they track the series of interactions that take place when a prospective customer is making a purchase decision. They may also use internal data to identify patterns that make someone more likely to become a customer and behaviors that contribute to any given customer type having a higher or lower total lifetime value.

An example of a leading CRM software is Salesforce. This video shows how Salesforce combines multiple data sources throughout the organization to present a 360° view of the customer.

https://youtu.be/M1hEh5ZWzU8

To illustrate the power of internal data, consider this example from Trident Marketing, a company that conducts marketing and sales activities for other businesses like home security firm ADT, satellite media company DirectTV, and Travel Resorts of America. It used marketing analytics to generate insights based on internal data from its customer-service call centers, order systems, CRM systems, search engine results, and external credit-bureau data about customers. The resulting recommendations were powerful and provided specific guidance about the following:

> When to call a consumer, which product to pitch, and which salesperson is best suited to close the sale. Plus, sophisticated analytic models can also predict which consumers are likely to cancel services within twelve months—a metric that goes straight to the bottom line because the company must compensate its customers for consumer churn.[1]

Using this information, the company was able to apply sales and marketing techniques to increase sales, profitability, and customer retention on behalf of its clients. In fact, revenue increased nearly 1000 percent over four years.[2]

Competitive Intelligence

Competitive intelligence is marketing information that helps marketers and other members of an organization better understand their competitors and competitive market dynamics. Common types of competitive intelligence include the following:

- **Product information:** Who is making products that compete with your offerings? What features or capabilities make these products attractive to prospective customers? How do these features compare to yours? How are products packaged and offered to customers?
- **Market share and penetration:** Which companies in your competitive market sell the most products to your target market, and how much do they sell? Which organizations are considered the market leaders? How is market share evolving over time?
- **Pricing strategy:** What do competitors charge for their products? What pricing structure and strategies do they use? What special pricing or discounts do they offer? How does this affect your pricing and position relative to competitors?
- **Competitive positioning and messaging:** What are competitors saying about themselves? What are they saying to current and prospective clients or other stakeholders about your organization or products? How effective are their messages at generating interest in competitor products or diminishing interest in yours? What keywords are competitors dominating in search engines?
- **Win/loss analysis:** What proportion of new sales are you winning or losing? Why are people selecting your product over competitors'? Why are they selecting a competitor's offering instead of yours?

Companies tend to guard sensitive information closely, such as detailed information about product cost, pricing structure, and market share. In fact, there are market analysts who specialize in competitive intelligence because it can be so difficult to obtain. However, anyone in a marketing role should maintain a general level of awareness about

1. http://www.chiefmarketer.com/big-data-marketing-analytics-can-help-sales/
2. http://www.fuzzyl.com/wp-content/uploads/49415_TridentMarketingIncreases_Case-Study_PRF2_May18_12-2.pdf

competitors and what's happening in their market, and there are fairly easy ways to do this. Marketers can learn a lot directly from competitors, such as reading their websites, following them on social media, and monitoring press releases and other published content to understand what they are communicating to the market and to prospective customers. Information can also come from industry-focused newsletters, blogs, social media conversations, reports, conferences, and other forums that discuss new developments and key players in a product category or market.

When marketing activities are associated with a higher-priced sale and a complex decision process, sales and marketing organizations may conduct some type of win/loss analysis after a purchasing decision is made. A win/loss analysis captures information from individuals involved in a sale to understand the key factors influencing the final purchasing decision. It can help marketers better understand how to improve the marketing mix—product, price, promotion, placement—in order to improve sales performance in comparison with competitors.

All of these activities can provide useful insights about how customers view the choices available to them, as well as how competitors view and compete in the market. As with internal data, a better understanding of these factors helps marketers improve the marketing mix to compete more effectively and become a preferred choice for customers.

Marketing Research

Marketing research is a systematic process for identifying marketing opportunities and solving marketing problems, using customer insights derived from the collection and analysis of marketing information. Marketing research identifies the problem to be solved or the opportunity to be explored, as well as the information required to address research questions. It also involves processes for collecting the information, analyzing it, identifying insights, and reporting findings and recommendations to those who will take action based on the results.[3]

Marketing research may cover a full spectrum of topics related to customers, products, and market dynamics, and it can use a variety of research methods (which will be discussed later in this module). In general, marketing research requires some additional information beyond what marketers have at their fingertips (like, say, internal data). Sometimes it is necessary to collect new primary data directly from target audiences, such as current or prospective customers. In other situations, marketing research uses secondary data captured previously by another organization. Marketing research may incorporate internal data and/or competitive intelligence in order to provide a more complete answer to a marketing problem or question.

Common subjects for marketing research include:

- **Environmental factors** and how they affect consumer behavior. These include factors such as the health of the economy, the legal environment, market trends and other social factors, technology and its influence, and cultural factors that make doing business differently in one region or country compared to others.
- **Customer attitudes, behaviors, and perceptions**. Marketing research can be essential in understanding customer needs, how their needs are or aren't being met by the market, views about various products and companies, satisfaction levels, preferences for product features and pricing, the consumer decision-making process, and factors that influence it.
- **Product research.** Product research explores where opportunities and gaps exist for improving existing products or introducing new ones, concept testing, sizing the market for a product, market penetration, prioritizing product features and preferences, testing product effectiveness and customer receptivity, user testing,

3. https://www.ama.org/AboutAMA/Pages/Definition-of-Marketing.aspx

pricing strategies, product naming and branding, and gauging how to position a product relative to competitors.

- **Marketing, advertising, and promotion research.** This area of research seeks to improve the effectiveness and reach of marketing activities such as market segmentation, messaging and communications, advertising and media testing, events and sponsorships, packaging, and display testing.
- **Corporate research.** Corporate research investigates corporate reputation and opportunities for strengthening an organization's position in the market through brand building, research and development, mergers and acquisitions, strategic partnerships, corporate planning, and profitability.

Marketing research is usually a wise investment when it's undertaken to inform decisions involving a significant shift in direction, whether that shift is associated with a product, brand, message, tone, corporate image, or other area linked to a major change and related investment. Marketing research projects may be large or small in terms of time, scope, cost, and resources involved. With a simple project, it could take an in-house marketer just a few hours to formulate research questions and analyze a data set from internal or secondary data sources, with no external costs. Complex marketing research projects may take longer than a year to complete and cost hundreds of thousands of dollars paid to research firms that specialize in particular markets or types of research.

As organizations grow, they may employ a marketing research director to oversee and coordinate research activities to ensure that they are getting accurate data and useful results. Smaller organizations without this internal capacity may hire a marketing research company or consultant to conduct the project, lead data collection, provide analysis, and advise on the best methods for interpreting and acting on research findings.

Target

American retail giant Target employed extensive marketing research to help it figure out how to rebuild its brand after a sales slump. The slump was triggered by an unsuccessful repositioning move as a "bargain brand" during the economic downturn of 2008 and a highly publicized data breach in 2013 that left many customers distrustful of the company. Company leadership used marketing research to identify opportunities to reinvigorate the Target brand and win new audiences.

A strategy unveiled in 2015 targets young Hispanic moms as a new and growing demographic the company wants to win over, in addition to suburban "soccer moms" who have been the company's mainstay segment. Targeted advertising (no pun intended), product development, and the in-store experience are all being tested and refined to appeal to this segment.[4]

In 2019, Target created commercials targeting college students living in dorms, further expanding their targeted segments.

4. https://www.washingtonpost.com/news/business/wp/2015/03/04/targets-new-strategy-we-need-more-than-just-minivan-moms/

8.4 THE MARKETING RESEARCH PROCESS

Learning Objectives

- Identify the steps of conducting a marketing research project
- Outline a standard process for using marketing information and research to address an organization's strategic questions

Marketers can glean powerful insights from marketing information, but these insights generally don't come from nowhere.

Instead, it takes a well-structured research process to identify what you are trying to understand better and then take the appropriate steps, using the right information, to get your questions answered. The next part of this module explains a standard process organizations use to conduct marketing research and generate insights from marketing information of all types.

Learning Activities

- Reading: The Marketing Research Process

A Standard Approach to Research Inquiries

Marketing research is a useful and necessary tool for helping marketers and an organization's executive leadership make wise decisions. Carrying out marketing research can involve highly specialized skills that go deeper than the information outlined in this module. However, it is important for any marketer to be familiar with the basic procedures and techniques of marketing research.

It is very likely that at some point a marketing professional will need to supervise an internal marketing research activity or to work with an outside marketing research firm to conduct a research project. Managers who understand the research function can do a better job of framing the problem and critically appraising the proposals made by research specialists. They are also in a better position to evaluate their findings and recommendations.

Periodically marketers themselves need to find solutions to marketing problems without the assistance of marketing research specialists inside or outside the company. If you are familiar with the basic procedures of marketing research, you can supervise and even conduct a reasonably satisfactory search for the information needed.

Source: Lumen Learning. The Marketing Research Process, in Module 6. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-step-1-identify-the-problem/

Step 1: Identify the Problem

The first step for any marketing research activity is to clearly identify and define the problem you are trying to solve. You start by stating the marketing or business problem you need to address and for which you need additional information to figure out a solution. Next, articulate the objectives for the research: what do you want to understand by the time the research project is completed? What specific information, guidance, or recommendations need to come out of the research in order to make it a worthwhile investment of the organization's time and money?

It's important to share the problem definition and research objectives with other team members to get their input and further refine your understanding of the problem and what is needed to solve it. At times, the problem you really need to solve is not the same problem that appears on the surface. Collaborating with other stakeholders helps refine your understanding of the problem, focus your thinking, and prioritize what you hope to learn from the research.

Prioritizing your objectives is particularly helpful if you don't have the time or resources to investigate everything you want.

To flesh out your understanding of the problem, it's useful to begin brainstorming actual research questions you want to explore. What are the questions you need to answer in order to get to the research outcomes? What is the missing information that marketing research will help you find? The goal at this stage is to generate a set of preliminary, big-picture questions that will frame your research inquiry. You will revisit these research questions later in the process, but when you're getting started, this exercise helps clarify the scope of the project, whom you need to talk to, what information may already be available, and where to look for the information you don't yet have.

Applied Example: Marketing Research for Bookends

To illustrate the marketing research process, let's return to Uncle Dan and his ailing bookstore, Bookends. You need a lot of information if you're going to help Dan turn things around, so marketing research is a good idea. You begin by identifying the problem and then work to set down your research objectives and initial research questions:

Identifying Problems, Objectives, and Questions

Core business problem Dan needs to solve

- How to get more people to spend more money at Bookends.

Research Objectives

1. Identify promising target audiences for Bookends
2. Identify strategies for rapidly increasing revenue from these target audiences

Initial research questions

- Who are Bookends' current customers?
- How much money do they spend?
- Why do they come to Bookends?
- What do they wish Bookends offered?
- Who isn't coming to Bookends, and why?

Step 2: Develop a Research Plan

Once you have a problem definition, research objectives, and a preliminary set of research questions, the next step is to develop a research plan. Essential to this plan is identifying precisely what information you need to answer your questions and achieve your objectives. Do you need to understand customer opinions about something? Are you looking for a clearer picture of customer needs and related behaviors? Do you need sales, spending, or revenue data? Do you need information about competitors' products or insight about what will make prospective customers notice you? When do you need the information, and what's the time frame for getting it? What budget and resources are available?

Once you have clarified what kind of information you need and the timing and budget for your project, you can develop the research design. This details how you plan to collect and analyze the information you're after. Some types of information are readily available through *secondary research* and *secondary data* sources. Secondary research analyzes information that has already been collected for another purpose by a third party, such as a government agency, an industry association, or another company. Other types of information need to from talking directly to customers about your research questions. This is known as *primary research*, which collects *primary data* captured expressly for your research inquiry. Marketing research projects may include secondary research, primary research, or both.

Depending on your objectives and budget, sometimes a small-scale project will be enough to get the insight and direction you need. At other times, in order to reach the level of certainty or detail required, you may need larger-scale research involving participation from hundreds or even thousands of individual consumers. The research plan lays out the information your project will capture—both primary and secondary data—and describes what you will do with it to get the answers you need. (Note: You'll learn more about data collection methods and when to use them later in this module.)

Your data collection plan goes hand in hand with your analysis plan. Different types of analysis yield different types of results. The analysis plan should match the type of data you are collecting, as well as the outcomes your project is seeking and the resources at your disposal. Simpler research designs tend to require simpler analysis techniques. More complex research designs can yield powerful results, such as understanding causality and trade-offs in customer perceptions. However, these more sophisticated designs can require more time and money to execute effectively, both in terms of data collection and analytical expertise.

The research plan also specifies who will conduct the research activities, including data collection, analysis, interpretation, and reporting on results. At times a singlehanded marketing manager or research specialist runs the entire research project. At other times, a company may contract with a marketing research analyst or consulting firm to conduct the research. In this situation, the marketing manager provides supervisory oversight to ensure the research delivers on expectations.

Finally, the research plan indicates who will interpret the research findings and how the findings will be reported. This part of the research plan should consider the internal audience(s) for the research and what reporting format will be most helpful. Often, senior executives are primary stakeholders, and they're anxious for marketing research to inform and validate their choices. When this is the case, getting their buy-in on the research plan is recommended to make sure that they are comfortable with the approach and receptive to the potential findings.

Applied Example: A Bookends Research Plan

You talk over the results of your problem identification work with Dan. He thinks you're on the right track and wants to know what's next. You explain that the next step is to put together a detailed plan for getting answers to the research questions.

Dan is enthusiastic, but he's also short on money. You realize that such a financial constraint will limit what's possible, but with Dan's help, you can do something worthwhile. Below is the research plan you sketch out:

Identifying Data Types, Timing, Budget, Data Collection Methods, Analysis, and Interpretation

Types of data needed

1. Demographics and attitudes of current Bookends customers
2. Current customers' spending patterns
3. Metro area demographics (to determine types of people who aren't coming to the store)

Timing and budget

- Complete project within 1 month
- No out-of-pocket spending

Data collection methods

1. Current customer survey using a free online survey tool
2. Store sales data mapped to customer survey results
3. Statistics Canada data on metro-area demographics
4. 8 to 10 intercept ("man on the street") interviews with non-customers

Analysis plan

- Use Excel or Google Sheets to tabulate data
- Marina (statistician cousin) to assist in identifying data patterns that could become market segments

Interpretation and Reporting

- You and Dan will work together to comb through the data and see what insights it produces. You'll use PowerPoint to create a report that lays out significant results, key findings, and recommendations.

Step 3: Conduct the Research

Conducting research can be a fun and exciting part of the marketing research process. After struggling with the gaps in your knowledge of market dynamics—which led you to embark on a marketing research project in the first place—now things are about to change. Conducting research begins to generate information that helps answer your urgent marketing questions. As previously mentioned, there are two types of research: primary and secondary. Primary research is research that you conduct yourself (i.e., you go out into the field and find data and complete experiments). Secondary research is research conducted or synthesized by someone else (i.e., someone else has gone out into the field or someone else has compiled multiple sources of research). Though it may seem counterintuitive based on their names, typically data collection begins by reviewing any existing secondary research. After getting everything you can from secondary research, it's time to shift attention to primary research. After all, it's much easier (and smarter!) to review existing research before potentially redoing experiments or recapturing known information.

Secondary Research

With secondary research, it's important to narrow your scope to existing research and data that provide some information or insight about the problem. Prior research projects, internal data analyses, industry reports, customer satisfaction survey results, and other information sources may be worthwhile to review. Even though these resources may not answer your research questions fully, they may further illuminate the problem you are trying to solve. Secondary research and data sources are nearly always cheaper than capturing new information on your own. Your marketing research project should benefit from prior work wherever possible.

Primary Research

You may not always complete primary research, but it is often part of research plans. Primary research involves asking questions and then listening to and/or observing the behavior of the target audience you are studying. In order to generate reliable, accurate results, it is important to use proper scientific methods for primary research data collection and analysis. This includes identifying the right individuals and number of people to talk to, using carefully worded surveys or interview scripts, and capturing data accurately. Without proper techniques, you may inadvertently get bad data or discover bias in the responses that distorts the results and points you in the wrong direction. The module on Marketing Research Techniques discusses these issues in further detail since the procedures for getting reliable data vary by research method.

Applied Example: Getting the Data on Bookends

Dan is on board with the research plan, and he's excited to dig into the project. You start with secondary data, getting a dump of Dan's sales data from the past two years, along with related information: customer name, postal code, frequency of purchase, gender, date of purchase, and discounts/promotions (if any).

You visit the U.S. Census Bureau website for Arkansas to download demographic data about a metro area. The data show all census subdivisions in the area, along with population size, gender breakdown, age ranges, income, and education levels.

The next part of the project is customer survey data. You work with Dan to put together a short survey about customer attitudes toward Bookends, how often and why they come, where else they spend money on books and entertainment, and why they go other places besides Bookends. Dan comes up with the great idea of offering a 5 percent discount coupon to anyone who completes the survey. Although it eats into his profits, this scheme gets more people to complete the survey and buy books, so it's worth it.

For a couple of days, you and Dan take turns doing "man on the street" interviews (you interview the guy in the red hat, for instance). You find people who say they've never been to Bookends and ask them a few questions about why they haven't visited the store, where else they buy books and other entertainment, and what might get them interested in visiting Bookends sometime. This is a lot of work, but for a zero-budget project, it's coming together pretty well.

Step 4: Analyze and Report Findings

Analyzing the data obtained in a market survey involves transforming the primary and/or secondary data into useful information and insights that answer the research questions. This information is condensed into a format to be used by managers—usually a presentation or detailed report.

Analysis starts with formatting, cleaning, and editing the data to make sure that it's suitable for whatever analytical techniques are being used. Next, data is tabulated to show what's happening: what do customers actually think? What's happening with purchasing or other behaviors? How do revenue figures actually add up? Whatever the research questions, the analysis takes source data and applies analytical techniques to provide a clearer picture of what's going on. This process may involve simple or sophisticated techniques, depending on the research outcomes required. Common analytical techniques include regression analysis to determine correlations between factors; conjoint analysis to determine trade-offs and priorities; predictive modeling to anticipate patterns and causality, and analysis of unstructured data such as Internet search terms or social media posts to provide context and meaning around what people say and do.

Good analysis is important because the interpretation of research data—the "so what?" factor—depends on it. The analysis combs through data to paint a picture of what's going on. The interpretation goes further to explain what the research data means and make recommendations about what managers need to know and do based on the research results. For example, what is the shortlist of key findings and takeaways that managers should remember from the research? What are the market segments you've identified, and which ones should you target? What are the primary reasons your customers choose your competitor's product over yours, and what does this mean for future improvements to your product?

Individuals with a good working knowledge of the business should be involved in interpreting the data because they are in the best position to identify significant insights and make recommendations from the research findings. Marketing research reports incorporate both analysis and interpretation of data to address the project objectives.

The final report for a marketing research project may be in written form or slide-presentation format, depending on organizational culture and management preferences. Often a slide presentation is the preferred format for initially sharing research results with internal stakeholders. Particularly for large, complex projects, a written report may be a better format for discussing detailed findings and nuances in the data, which managers can study and reference in the future.

Applied Example: Analysis and Insights for Bookends

Getting the data was a bit of a hassle, but now you've got it and you're excited to see what it reveals. Your statistician cousin, Marina, turns out to be a whiz with both the sales data and the census data. She identified several demographic profiles in the metro area that looked a lot like lifestyle segments. Then she mapped Bookends' sales data into those segments to show who is and isn't visiting Bookends. After matching customer survey data to the sales data, she broke down the segments further based on their spending levels and reasons they visit Bookends.

Gradually a clearer picture of Bookends' customers is beginning to emerge: who they are, why they come, why they don't come, and what role Bookends plays in their lives. Right away, a couple of higher-priority

segments—based on their spending levels, proximity, and loyalty to Bookends—stand out. You and your uncle are definitely seeing some possibilities for making the bookstore a more prominent part of their lives. You capture these insights as "recommendations to be considered" while you evaluate the right marketing mix for each of the new segments you'd like to focus on.

Step 5: Take Action

Once the report is complete, the presentation is delivered, and the recommendations are made, the marketing research project is over, right? Wrong.

What comes next is arguably the most important step of all: taking action based on your research results.

If your project has done a good job interpreting the findings and translating them into recommendations for the marketing team and other areas of the business, this step may seem relatively straightforward. When the research results validate a path the organization is already on, the "take action" step can galvanize the team to move further and faster in that same direction.

Things are not so simple when the research results indicate a new direction or a significant shift is advisable. In these cases, it's worthwhile to spend time helping managers understand the research, explain why it is wise to shift course, and explain how the business will benefit from the new path. As with any important business decision, managers must think deeply about the new approach and carefully map strategies, tactics, and available resources to plan effectively. By making the results available and accessible to managers and their execution teams, the marketing research project can serve as an ongoing guide and touchstone to help the organization plan, execute, and adjust course as it works toward desired goals and outcomes.

It is worth mentioning that many marketing research projects are never translated into management action. Sometimes this is because the report is too technical and difficult to understand. In other cases, the research conclusions fail to provide useful insights or solutions to the problem, or the report writer fails to offer specific suggestions for translating the research findings into management strategy. These pitfalls can be avoided by paying due attention to the research objectives throughout the project and allocating sufficient time and resources to do a good job interpreting research results for those who will need to act on them.

Applied Example: Bookends' New Customer Campaign

Your research findings and recommendations identified three segments for Bookends to focus on. Based on the demographics, lifestyle, and spending patterns found during your marketing research, you're able to name them: 1) Bored Empty-Nesters, 2) Busy Families, and 3) Hipster Wannabes. Dan has a decent-sized clientele across all three groups, and they are pretty good spenders when they come in. But until now he hasn't done much to purposely attract any of them.

With newly identified segments in focus, you and Dan begin brainstorming about a marketing mix to target each group. What types of books and other products would appeal to each one? What activities or events would bring them into the store? Are there promotions or particular messages that would induce

them to buy at Bookends instead of Amazon or another bookseller? How will Dan reach and communicate with each group? And what can you do to bring more new customers into the store within these target groups?

Even though Bookends is a real-life project with serious consequences for your uncle Dan, it's also a fun laboratory where you can test out some of the principles you're learning in your marketing class. You're figuring out quickly what it's like to be a marketer.

Well done, rookie!

8.5 MARKETING RESEARCH TECHNIQUES

Learning Objectives

- Describe primary research methods and the types of information they yield
- Explain the pros and cons of in-person, telephone, and online research methods
- Describe secondary market research and the types of insights it produces
- Recognize alternative techniques for conducting marketing research, including primary and secondary research methods

The five-step marketing research process provides a well-structured approach to follow any time you have a marketing problem that research can help you solve. What type(s) of research you conduct depends on the kind of information needed to solve your problem. Sometimes you can solve the problem using secondary data someone else has already collected for another purpose. At other times, you will need to collect your own data through primary research focused expressly on your problem.

The next section of this module discusses common methods for conducting secondary and primary research. As you become familiar with these techniques, you will learn which marketing research methods tend to be most appropriate for which sorts of problems.

Learning Activities

- Reading: Secondary Marketing Research
- Reading: Primary Marketing Research Methods

Tapping Existing Sources of Information

Before diving into primary research for a marketing research project, it's always wise to investigate whether there's an existing body of relevant information that you can work with. It's at least a place to start, and it may show you what you're missing. This is known as secondary research.

Secondary research uses *secondary data*, or source information that has previously been collected either inside or outside the organization. Internal data and some external data are freely available or have only a nominal cost. Other secondary-data providers charge fees to marketing researchers who want to access their data sets, reports, and customer insights. Common types of secondary data are described below.

Internal Data

A company's internal data, such as sales and marketing records, customer account information, product purchasing, and usage data are typical secondary data sources. Previously prepared marketing research reports may also be a great source of insights as you seek to solve a new or related business problem. Marketing researchers may also compile a large amount of internal data into a shared database and conduct marketing analytics to understand patterns in customer behavior, market trends, and other insights to guide management and marketing strategy decisions.

Government and Nongovernmental Organization (NGO) Data

Many government agencies as well as nonprofits and other nongovernmental organizations collect and publish vast amounts of freely available data that may be useful for marketing research purposes. For example, demographic data published by United States Census offers insight into the makeup of the U.S. population by age, gender, educational attainment, and many other factors. The Arkansas Development Commmission has a range of data sources for the state including business and economy, government administration, nature and environment, and social services. The World Trade Organization publishes economic data, trade statistics, and information about the regulatory environment for business for more than one hundred WTO member countries.

You can view data for the median household income in the U.S. on the U.S. Census website[1]. In 2022, the median household income had its first statistically signficant deline since 2011, a factor that affect spendings on vareity of goods and services.

The Librarcy of Congress has reserach guides that delve into market segments, as well as a links to demographic resources covering a wide rages of consumer behavior and generational cohorts. There's also a link to the Libraroy of Congress Online Catalog, as well as a bookmarkable list of internet sources for conduciting consumer research.

The U.S. Small Business Administration provides guidance on how to do market research and provides a list of

1. United States Census. (2022). Income and Poverty in the United States: 2020. https://www12.statcan.gc.ca/census-recensement/2016/geo/map-carte/ref/thematic-thematiques/inc-rev/map-eng.cfm?TYPE=2

sources for small businesses to find information about consumer statistics, economic indicators, production and sales statistics, statistics of specific industries–and more.

When leading auto-repair franchise Midas developed a formula for "placing" their new franchised stores in successful locations, they turned to government research sources such as U.S. census data. The company explains that they look for "streets with high traffic counts, with 50,000 or more residents within three miles, and with speed limits no higher than 45 miles per hour. We look for areas that have several other major food, automotive, or retail brands, and we like to put new locations near car dealerships, since many customers transition their freshly out-of-warranty cars from dealer maintenance to Midas."[2]

These examples of governmental and NGO data just scratch the surface of the many and varied publicly available data sources that can inform smart marketing and business decisions.

Industry Associations, Professional Journals, and Media

A variety of industry and professional associations publish data to inform professionals and the general public about what's happening in their profession or economic sector. Most industries also have dedicated media that focus on pertinent news, research, and developments including online or offline news outlets, magazines, newsletters, and journals, as well as popular websites, blogs, and other online forums. Similarly, academic journals and libraries can be great secondary data sources for influential developments. Topics can range broadly, from sizing industries and product categories to discussions of key challenges faced by organizational leaders such as corporate chief information officers or college and university presidents. Marketers should be attuned to the organizations and publications that cover the industries or product categories they work within. These will likely be the most fertile sources of insightful, up-to-date secondary data.

Commercial Marketing Research Data

A number of commercial marketing research companies offer syndicated marketing research. Syndicated research usually covers topics that may be of interest to multiple organizations. Research companies collect data, analyze it, and resell it to organizations interested in the topics and consumers these initiatives explore. Often these projects collect vast amounts of consumer data over time, providing a useful historical view about the consumer population and how it may be evolving over time.

For example, the research company Nielsen captures data associated with PRIZM, an elaborate lifestyle and behavioral segmentation of the U.S. consumer market. Marketers can purchase data and analyses from Nielsen to help them better understand the PRIZM segments and how these segments map to target audiences they want to reach and penetrate. Nielsen also collects *scanner data*, which are detailed information about the sale of consumer goods obtained by "scanning" the bar codes for individual products at electronic points of sale in retail outlets. The data can provide information about quantities, characteristics, and prices of goods sold.

Database marketing organizations, sometimes called *customer insights services providers*, collect massive amounts of information about consumers by linking financial and credit data to tracking data about online and offline purchases and other behaviors. Then they mine the data to find patterns and indicators about which data points are most useful for sales and marketing purposes. Organizations can purchase access to this information for use in mar-

2. http://midasfranchise.com/research-midas/how-do-i-find-a-midas-location/

keting research analyses as well as ongoing marketing activity. They can also combine it with their own internal data to get a richer view of their customers and target segments.

As data about individual consumers, companies, and industries proliferate, so do the ways companies try to capitalize on them by packaging, analyzing, and selling reports, data sets, and other information products to organizations that need them. It's a burgeoning industry in its own right. The breadth and variety of commercially available secondary data will continue to expand along with the tools marketers use to exploit the available information.

Search Engine Results

Whether or not you are familiar with secondary data sources pertinent to your marketing research project, it is smart to conduct an Internet search (using a reputable search engine) to see what sources surface. Search engines can be hugely helpful in locating both free and commercially available secondary data. With this information, you can compare the options and decide whether it makes sense to pay for data or rely only on free resources.

In addition, thorough Internet searches can help confirm that you've tapped into whatever existing data sources might be helpful to you before you decide to invest in primary research and data collection, which is usually more expensive than secondary data.

Analyzing Secondary Data

With secondary research in hand, the next step is to review your source materials to pull out the insights that are most pertinent to your marketing problem. Some secondary research sources may include data you can analyze and map to your own customer segmentation or other market analyses. Other secondary research provides analysis and insights you can use to develop implications and recommendations for your organization and marketing problem.

It is helpful to capture key findings and recommendations from the secondary research review and analysis, just as you would for a primary research project. The goal is to summarize what you have learned, making it easier for any primary research activity to build on what has already been discovered from secondary research.

Advantages and Disadvantages of Secondary Research

There are tremendous advantages in using data from secondary sources. First, the expense of gathering information from secondary sources is usually a fraction of the cost of collecting primary data. It also requires less time to collect secondary data, and often there are significant time pressures around getting the information needed to solve a marketing or management problem. With rapid, ongoing developments in information technology, it is becoming easier and more cost-effective to gather, merge, and reformulate numerous secondary sources of data within a single system or database. This capability has made secondary data even more attractive.

There are two primary limitations of secondary research. First, the information may be somewhat dated, since you are using data previously collected by a third party. Second, secondary data is rarely collected for precisely the same reasons that you are conducting your marketing research project. The secondary research may be related to your current marketing problem, but it probably does not address your exact problem with your exact market and competitive dynamics.

You can gain a lot from secondary research, but it is important to account for these limitations as you decide how to incorporate insights from secondary data. In spite of these limitations, the advantages of secondary research are

so great that it's standard practice not to proceed with primary data collection until a thorough review of secondary information has been conducted.

Choosing the Right Primary Research Method

When secondary research doesn't provide all the answers, marketers often turn to primary research, which involves data collection that's tailored to the specific problem or challenge you're trying to address. There are many ways to conduct primary research. Which approach to take depends on the type of information you need along with the timing, budget, and resources of your project.

Quantitative vs. Qualitative Research

Qualitative research explores ideas, perceptions, and behaviors in-depth with a relatively small number of research participants. It aims to answer questions with more complex, open-ended responses such as, "What does this mean to you...?" or "Why do you believe...?" or "How do you like to...?" Qualitative research doesn't yield data that are easily tabulated and translated into tidy percentages. Instead, provides information that can help marketers understand the big picture of how customers perceive or experience something.

Qualitative research can also give an organization directional information. That is, it can help an organization tell whether it's on the right track with its approach or solution to a problem. Qualitative research techniques tend to be loosely structured and less formal, since the topical exploration may head in very different directions depending on the person or group participating. These techniques can provide great insights to marketers, but because they involve relatively few participants, the results can be very subjective and idiosyncratic. The risk is in assuming what you learn from a handful of individuals pertains to your target audience as a whole.

In contrast, **quantitative research** collects information that can easily be counted, tabulated, and statistically analyzed. When organizations need to understand (or *quantify*) the exact percentage of people who believe or act in a certain way, quantitative research is necessary. Quantitative methods allow researchers to test and validate a hypothesis or what they believe is the best course of action. These methods collect enough data to provide statistically valid results, and managers use them to inform the choices they make.

Often marketing research projects start with qualitative research activities to get a more complete picture of an issue or problem and how customers/consumers are thinking about it. With a better understanding of the issue, they follow up with quantitative research that provides more specificity about what proportion of the population shares common preferences, beliefs, or behaviors. This information provides insights to help marketers refine their segmentation and targeting strategy, the marketing mix, or other considerations related to marketing effectiveness.

Qualitative Research Methods

Typical qualitative methods include behavioral observation, in-depth interviews, focus groups, and social listening. Each of these methods is described below.

Observation

Observation may be the oldest method of primary research. Since the beginning of commerce, merchants have been

watching their customers and non-customers engage in a variety of behaviors. Examples include information-gathering, shopping, purchasing, product returns, complaints, and so forth. Observation can be as simple as a local fast-food restaurant manager watching the expression on customers' faces as they eat a new sandwich.

More formal observation techniques are also employed. Researchers might record observations in a prescribed way for later analysis and reference. Video cameras, audio systems, movement tracking, biofeedback, and other technologies may be used to observe and capture information about consumers. Some observational techniques can be quite intrusive. For instance, a researcher might enter a consumer's home and conduct an audit to take an inventory of products found. Ethnographic research requires that the researcher practically move in with the consumer to observe and record various relevant behaviors.

Observation may be the only way to capture some types of information, such as how consumers actually behave or use a product. It can provide important research insights, especially if consistent patterns are identified.

A great example of observational research is the way technology company Google works to ensure that its search-engine product functions well in every market in which it operates. One of its major markets is China. In Chinese, though, the alphabet has a much more extensive character set than English does, which makes it difficult for Chinese users to get helpful research results. Google researchers observed and video-recorded Chinese people using search engines to help them understand exactly what, when, and why problems occurred. The company used this information to develop potential solutions such as "Google Suggest," which auto-fills search suggestions so people don't have to type in the full search query. The research also led to Google's "Did You Mean?" feature, which asks users if they meant to type in a different, more popular, standardized, or spell-checked search query. Experimenting with and adding these sorts of features helped the company create a much more useful product for the Chinese market. Google has also added improvements with broad appeal to its standard search-engine product in other markets.[1]

Depending on the approach, observation can be relatively inexpensive and quick. More sophisticated observational research can be significantly more expensive, but it can also offer unique insights that marketers might otherwise miss.

In-Depth Interviews

In-depth interviews give marketing researchers the opportunity to delve deeply into topics of interest with the individuals they want to understand better. Research projects that use this method typically involve a fairly small number of these interviews, and they target the precise characteristics of the audiences that researchers want to understand. For example, a pharmaceutical company might want to understand a medical doctor's reasoning when considering which drugs to prescribe for certain medical conditions. A business software company might want to have a focused discussion with a product "power-user" about the limitations they see in the current product and what improvements they would like to see.

In-depth interviews are structured around a discussion guide. The interviewer asks questions and then listens carefully to capture responses—and sometimes asks follow-up questions to gain additional clarity and insight. In-depth interviews provide the opportunity to get under the surface and probe for more thoughtful answers and nuanced responses to interviewer questions. Often these interviews help researchers identify the range of questions and responses they should include in a quantitative survey (with more participants). In-depth interviews might also

1. https://hbr.org/2009/03/how-google-and-pg-approach-new

be combined with behavioral observation to get a richer understanding of why people do what they do: "What were you thinking when...?" or, "Why did you do this...?"

Interview length is an important consideration for in-depth interviews. It is difficult to keep people deeply engaged in a conversation for more than thirty minutes, so both the discussion guide and the interviewer must be very focused on covering key topics in the time allotted.

A primary disadvantage of in-depth interviews is cost: they tend to be quite expensive because they require not only the time of an experienced interviewer, but also some compensation, or *incentives*, for interview participants. Exactly how much compensation depends on the audience. To get a busy practicing lawyer to participate in an in-depth interviewer, researchers must offer significantly more money than they might to a flexible (and cash-strapped) college student, for example.

Focus Groups

Focus groups are much like in-depth interviews, except that they involve small groups (usually 6–12 individuals) rather than one person at a time. Like in-depth interviews, focus groups also try to delve deeply into topics of interest with people whose perspectives the researchers want to understand better. Focus groups have the added benefit of inviting peers to talk to one another about the topics in question, so the researchers hear not just one individual's views but also listen to and observe the group's interactions.

Whereas in-depth interviews are fairly short, focus groups tend to be longer, running 60–90 minutes, on average. It takes more time to hear from multiple people weighing in on a topic and to build an insightful group dynamic during the discussion. Focus groups tend to be expensive because each person receives an incentive for their time and participation. Audio or video recording and transcription are often preferred, so as to capture information for later reference.

It can be difficult to control the group dynamic in focus groups: sometimes one or a few people dominate the discussion while others hang back. "Groupthink" can be a problem when a charismatic participant manages to persuade others to adopt his way of thinking instead of allowing the full range of opinions to come to light. For these reasons, focus groups require skilled facilitators who are good at listening, managing time, steering the discussion, and keeping people on track. Focus group facilitators must also scrupulously avoid biasing participants with their own views, in order to ensure that the information captured accurately represents customer views.

The following video satire shows some of the challenges in conducting focus groups effectively and why a skilled facilitator isn't always enough:

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=288#oembed-1

You can view the transcript for "Focus Group on John Kenney's TRUTH IN ADVERTISING". (opens in new window)
(https://oerfiles.s3-us-west-2.amazonaws.com/WM+Marketing/Transcriptions/FocusGroupTruthInAdvertising_transcript.txt)

Networks and media production companies frequently rely on focus groups to guide their decisions about which television programs to produce and how to make improvements to programs in development. Termed "audience

research," these focus groups invite people into a viewing room to watch and provide feedback on a show. All are given a feedback dial—a tool participants use to indicate when they like or dislike something in the program. If they like something, they turn the dial up, and if they dislike something, they turn it down. A computer records the audience's responses and provides a second-by-second view of the program overlaid with the audience's response. Focus group facilitators monitor this feedback and then follow up with a discussion about what people did or didn't respond to, and why.

Interpreting the feedback from this audience research is something of an art: notoriously, the hit program *Seinfeld* was nearly canceled because the pilot show tested poorly in focus groups. Show creators look to audiences to help them understand not only what they like or dislike, but also what is interesting or unusual, and why. According to Michael Wright, former head of programming for TBS and TNT, "It's very rare that a test compels you to order or not order a show. All you're looking for is interesting feedback, to get insight you didn't have before. It's a tool. It's diagnostic" [2]. The focus group insights then provide guidance about where and how to improve a program to increase the chances that it will be a hit.

Communication strategists use this same technique to test messaging in political speeches, advertising, and other presentations. The following video, from the PR firm Luntz Mazlansky, shows the results from a focus group's feedback-dial reactions to a Barack Obama speech. The tracking lines on the screen show reactions from audience members who lean Democratic (green line) and Republican (red line). Marketers and messaging strategists use this feedback to understand which ideas and messages generate strong positive or negative feedback from the target audience:

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=288#oembed-2

You can view the transcript for "Obama Speech Focus Group Reaction – Responsibility". (opens in new window)

Social Listening

With the proliferation of social media comes a tremendous opportunity to learn exactly what key individuals are saying with regard to marketing-related messages. Social listening is a systematic process for tracking what is being said about a given topic in forums such as Facebook, Snapchat, Twitter, LinkedIn, blogs, and even mainstream media. When they engage in social listening, marketers monitor and analyze both positive and negative perspectives. Social listening helps marketers map not only who is saying what, but also who is influencing whom to help shape these opinions.

Social listening can be passive, with marketers mainly tracking which topics are trending and the prevailing sentiments around those topics. Social listening can also be conducted in a more focused, proactive way by putting questions or prompts out to a targeted group—a set of bloggers and influencers or a social media community, for instance—and saying, "tell me what you think about..."

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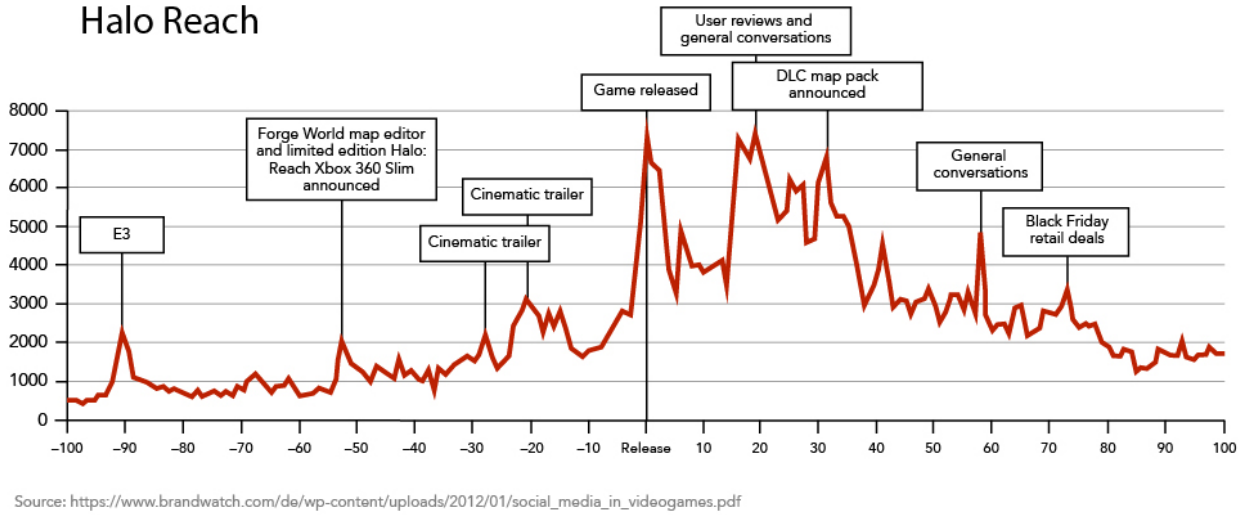
2. *How We Decide* by Jonah Lehher, pp. 108–109, https://books.google.com/books?id=f9LqaUbde2QC. See also http://www.nytimes.com/2012/05/13/arts/television/networks-rely-on-audience-research-to-choose-shows.html

A key challenge with social listening is how to best interpret the data that's collected; there can be so much information or chatter that it's hard to sift through everything to pick out the worthwhile nuggets. Marketers have a growing number of interesting tools to help monitor and harness the power of social media for social listening, from free tools like Google Alerts and Tweetdeck to advanced social media monitoring services like Brandwatch and Social Studio.

Unlike the other research methods described here, social listening takes place in public forums rather than through private research activities and interviews. This means that anything associated with the project may garner attention from members of the community or even the media. While this can be beneficial if an organization is trying to generate awareness, it can also seem manipulative or disingenuous. Social media communities have been known to turn on companies for misjudging the difference between "observation" and "interference."

Most marketing leaders today would argue that social listening should be an integral part of a marketer's job *all the time* in order to stay abreast of what people are saying about a product, company, industry, and competitive set. At the same time, marketing research projects may target social listening in a given subject or community in order to provide additional insight about a problem the organization is trying to solve or an opportunity under exploration.

An interesting example of social listening research is the work Brandwatch provides to video gaming companies. It tracks social media conversations over time as companies announce and launch new video games and new editions to monitor what creates buzz, who are the influential voices, and what generates positive and negative reactions.



Source: Lumen Learning. Primary Marketing Research Methods, in Module 6. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-primary-market-research-methods/

The company analyzes this information and offers insights to game creators and marketers about audience receptivity to the new games, the effectiveness of marketing campaigns and messages, product and competitive strategy, and whom to target in the future to influence market perceptions.[3]

3. https://www.brandwatch.com/de/wp-content/uploads/2012/01/social_media_in_videogames.pdf

Quantitative Research Methods

The most common quantitative marketing research methods are surveys and experimental research. Each is explained below.

Survey Research

Survey research is a very popular method for collecting primary data. Surveys ask individual consumers to give responses to a questionnaire. Questions may cover a variety of topics, but the question topics, format, response options, and survey length must all be a good fit for the audience and contact method (telephone, online, mail, in-person; more on this shortly).

Survey questions and responses must always be clearly worded and unambiguous. This stands to reason: if survey respondents are confused about what a question is asking, the data collected for that question won't be very valid. Surveys typically contain a combination of *close-ended questions* and *open-ended questions.* Closed-ended questions (also called *structured questions*) are easily tabulated, with a discrete set of answers such as yes/no, multiple choice, a scale rating, or "select all that apply." Open-ended questions (also called *unstructured questions*) ask for a verbal or textual response, such as "why did you choose X?" While it may be tempting to include lots of open-ended questions in surveys, in fact, it is best to use this type of question sparingly. Survey respondents find closed-ended questions easier to answer and often skip open-ended questions or supply only minimal responses. Too many open-ended questions increases the likelihood that participants will abandon the survey before it's complete.

When creating a survey, marketing researchers must strike the right balance between covering enough information to gain useful data and making the questionnaire short enough that people will finish it. The longer the questionnaire the less likely people are to take the time to answer all the questions. Most marketing researchers concur that if a questionnaire takes longer than 15 minutes to answer, odds are good that people won't get through it.

Surveys can be conducted quickly and inexpensively. For example, a store owner can ask people visiting the store to answer a few questions verbally or with a pencil-and-paper survey. Alternatively, a company can distribute a customer satisfaction survey at little or no out-of-pocket cost using freely available online survey tools (such as Survey Monkey or Wufoo).

Some surveys may require more complex and expensive data collection. For instance, a candidate running for public office may want to poll likely voters to learn which way they are leaning and what factors might influence their vote. For the survey to be useful and accurate, a representative set of likely voters must take the survey. This requires a screening process to make sure that the survey reaches the right people; likely voters whose age, ethnicity, gender, and other characteristics are similar to the population in the voting district. In this case, marketing researchers might opt for a telephone survey rather than an online or in-person survey. A telephone survey allows an interviewer to efficiently screen respondents to make sure they fit the likely voter profile and other characteristics of the voting population.

Once data is collected, the results are tabulated and analyzed with statistical methods in order to help marketing researchers understand the views, preferences, and experiences of their target audiences. The statistical analysis confirms not only how people respond to the survey questions, but also how confident researchers can be about the results' accuracy. A large number of completed surveys yields greater confidence that the results accurately represent the views of the general population. A smaller number of completed surveys means researchers can be less sure that the sample reflects the views of the general population.

The brokerage and banking firm Charles Schwab takes an interesting approach to survey research. The company

frequently commissions quantitative surveys to better understand different various issues related to investing, such as attitudes about retirement savings among 401K plan participants, and the economic outlook of adults living in major metropolitan centers. The company uses these surveys for two purposes. First, they gain deeper insights into ways of winning new customers and better serving existing customers. They can adjust targeting, marketing messages, product features, pricing, and placement as a result. Second, the company publishes many of the research results through its Web channels, social media, and paid media in order to generate attention. The company views this type of content as "currency for engagement"—that is, it's a way of starting conversations with new and current customers about ways that Charles Schwab might meet their needs.[4]

Experimental Research

Another quantitative research method is to conduct experiments in which some factor or set of factors is varied to yield comparative results. A typical example is A/B testing in marketing campaigns. In an A/B test, marketers develop two different versions of a marketing campaign artifact, such as a Web site landing page. Each version may use a slightly different call to action, image, or headline. The marketers send out each version to a set of target customers and then track the results to see which one is most effective. Marketers then use this information to further refine the campaign message and materials, hoping to boost results.

Experimental research may also be used to investigate how individuals with one set of factors or criteria compare to another. For instance, marketing researchers for a sales consulting services company might track the sales growth of companies using their services to companies that do not. Marketers might use the data from this research to demonstrate how using their company's services is linked to improved financial performance.

Research Contact Methods: Offline vs. Online

As marketing researchers decide which type of primary research to conduct, they must also decide which contact method fits best with their needs. In some situations, offline techniques like mail, telephone, and in-person research work best. In other situations, online contact methods are preferred, using email, mobile phone, and/or Web sites to attract survey participants and capture responses.

The following table outlines the advantages and disadvantages of each contact method.

4. https://aboutschwab.com/press/research and http://blog.news360.com/2014/05/content-marketing-all-star-qa-with-helen-loh-of-charles-schwab/

Marketing Research Contact Methods: Pros and Cons

Contact Method	Advantages	Disadvantages
Telephone	Good control over who participates Quick, timely data collection	Moderately expensive Fewer people to answer phones, leading to low response rates Interviewer quality may affect research results Questionnaire length limitations
Mail	Inexpensive	Little control over who participates Data collection takes longer Low response rates
In-person	Great control over who participates Quick, timely data collection Fairly good response rates Great for capturing in-depth detail and/or feedback	Very expensive Interviewer quality may affect research results Questionnaire length limitations
Online	Inexpensive Quick, timely data collection Low cost to continue data collection until desired response rates are achieved	Little control over who participates Greater possibility for self-selection bias Misses people who aren't online

Source: Lumen Learning. Primary Marketing Research Methods, in Module 6. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-primary-market-research-methods/

Before the arrival of the internet, marketing researchers relied on a combination of mail, in-person, and telephone contact to conduct marketing research. Observation techniques and focus groups were typically carried out in person, using skilled interviewers to facilitate high-quality data collection in the processes described above. Telephone and mail were the preferred contact methods for surveys, with researchers mailing a survey packet to targeted households or making telephone calls to request that people participate in survey research.

In mail surveys, a typical packet might contain a cover letter explaining the purpose of the research, a copy of the questionnaire, a stamped self-addressed return envelope, and an incentive for compliance (cash, merchandise, contribution to charity, or copy of report). Mail questionnaires allow the researcher to ask a large number of questions over a broad range of topics. They also permit the respondents to answer the questionnaire at their leisure. Mail surveys also have disadvantages. Researchers lose control through the mail process: Did the targeted person receive and answer the questionnaire? Did the respondent understand the questions? Did they complete the questionnaire? On what time frame? Mail surveys have been a good option for budget-conscious marketing-research projects, while, until recently, telephone surveys have been the preferred method for in-depth interviews and short, timely surveys with highly targeted audiences.

Historically, telephone surveys have offered several advantages. Names and related telephone numbers can be obtained directly from a telephone directory or from internal or external databases. Telephone survey costs are relatively low, and research companies can provide well-trained and technically supported interviewers to ensure good data collection. Telephone surveys are limited in several important ways, though, such as the difficulty of reaching the correct respondent, the problem of completing the interview if the respondent decides to hang up, and the inability to eliminate the bias introduced by not interviewing those without phones or individuals with unlisted numbers. Telephone survey respondents may lose patience rather quickly, so it is best to limit survey length as much as possible. This means only a limited number of topics can be addressed.

Digital technologies have altered the picture of marketing research data collection dramatically. Today, virtually everything that was once done in-person via telephone or mail can now be conducted digitally, often very effectively and at a lower cost. Digital tools like Skype, Zoom, and a variety of other Web conferencing technologies offer effective means of conducting in-depth interviews and even focus groups. Surveys can be provided through links in email messages, pop-up windows on websites, online forms, and through a range of other delivery mechanisms. Even many types of observational research can be conducted in virtual settings.

However, digital data collection has limitations, as well. In the digital world, researchers have less control over who opts to participate in a survey, so there is greater potential for *self-selection bias*—the problem of data reflecting the views of those who choose to participate while omitting a significant proportion of the population who choose not to participate. Digital data collection also bypasses the many individuals who spend little if any time online. Over time as the population approaches universal access to the Internet, this will become less of a factor. As long as the digital divide exists, researchers must factor in this issue when they design data collection among their target audiences.

Depending on the target audience, the quality and type of data researchers need, in-person, telephone, or mail may still be the optimal contact method. But with a growing array of sophisticated and cost-effective online data collection tools now available, it's always sensible for marketing researchers to evaluate online options for data collection, too.

Developing Research Instruments

Every marketing research method requires an instrument—the tool used for data collection. There are three basic types of marketing research instruments: questionnaires (for surveys), discussion guides (for in-depth interviews and focus groups), and mechanical data collection techniques designed to capture data associated with a research activity such as observation or experiment.

Designing Questionnaires

There are several rules of thumb for designing a questionnaire. Each question should be worded carefully, concisely and clearly, so that the respondent knows exactly what is being asked and what the response options mean. After drafting survey questions, it is always wise to have others review them and provide feedback on the question's wording, clarity, and overall flow from question to question. A good questionnaire should resemble a well-written story; it should be logical, relevant, easy to follow, and interesting to the reader or respondent.

As explained previously, questionnaires usually include a mix of open-ended and closed-ended questions. The figure below illustrates the different forms questions can take. As a yes/no question, Question 1 is considered a closed-ended *dichotomous question*; i.e., the respondent must check one of two possible answers. Question 2 is considered a *short response*; the respondent enters a brief text response of no more than a few words. Questions 3 and 4 are two different *scaled questions*, a type of closed-ended. Questions 5 and 6 are open-ended, allowing the respondent to provide any answer desired. Closed-ended questions are best used when the researcher wants to capture a particular set of answers or feels the respondent is unlikely to come up with an original answer.

Open-ended questions allow the respondent to provide personal answers with as much or as little detail as desired. Of course, there is a risk that the respondent will have no answer.

Questionnaire Development: Question Types

Question	Response Options
1. Have you purchased a new automobile since January 1st of this year?	___Yes ___No
2. If you have purchased a new automobile since January 1st, what make and model is it?	Make: _____ Model: _____
3. If you have not purchased a car since January 1st, how likely is it that you will buy a new care sometime before December 31st of this year?	___Extremely likely ___Quite likely ___Unlikely ___Extremely unlikely
4. How strongly do you agree with the following statement? *When buying a car, I tend to rely heavily on the reputation of the car brand.*	Disagree 1 2 3 4 5 Agree
5. If you have not purchased a new automobile this year, what is the most important reason for your decision not to buy a new car?	Text response:
6. Are there any other reasons that you have not bought a new car this year?	Text response:

Another important consideration is how to sequence the questions in the questionnaire. This may include placing easier questions at the beginning, encouraging people to stick with the survey and complete it, whether and how to group similar questions, and where to place demographic questions such as gender, age, occupation, and so forth. Typically demographic questions are grouped at the beginning or end. Researchers must also pay attention to making questions flow logically. Again, the goal is to create a coherent questionnaire so that respondents can answer it easily and accurately.

Designing Qualitative Discussion Guides

Discussion guides for in-depth interviews and focus groups follow many of the same rules as questionnaires: Questions need to be clearly worded and logically sequenced to provide a natural flow of discussion. Because these qualitative techniques are trying to get beneath the surface and uncover more in-depth information, they typically contain fewer closed-ended questions and more open-ended questions. Closed-ended questions might preface a thoughtful discussion about why a research participant feels or acts in a certain way.

Discussion guides should leave flexibility for the interviewer to pursue a useful line of inquiry that might surface. Focus group discussion guides should include questions that spark dialogue among the participants, so the researcher can benefit from the richness of peer interaction and opinion.

Timing is always an important consideration for these research instruments; how much ground can the interviewer realistically cover in the time allotted? Researchers must also pay close attention to where questions are placed in the discussion guide to ensure that the most important topics are covered even if the interviewer runs out of time.

Using Mechanical Instruments for Marketing Research

Some marketing research techniques collect information as research participants complete a task or go through a process. The research instruments in these research activities may involve some type of mechanical device and/or activity for data collection. For instance, marketing researchers may conduct website user testing to understand the effectiveness of the website design, layout, and messaging to encourage desired behaviors and perceptions. This research activity may involve equipment and a research process to track the user's eye movements, mouse/pointer movements, and clickstream, as well as their impressions of the website user experience. Marketing research on media and messaging may use a variety of devices to track research participants' media usage habits or their responses to messages and images as they view an advertisement, program, or speech.

Rather than designing these research tools from the ground up, marketing researchers typically work with specialists to conduct marketing research projects using these techniques and tools. Often these techniques are used in conjunction with other qualitative or quantitative methods to understand a marketing problem and possible solutions from multiple perspectives and approaches.

Sampling: Selecting Research Participants

In most marketing research, it is not necessary or feasible to conduct a complete census—that is, to speak to 100 percent of the target segment you want to study. This would be time-consuming, expensive, and superfluous since after you have heard from a number of individuals, you will have information that is representative of the views of the entire population. Sampling is the process of selecting the appropriate number and types of research participants so that the data you collect is sufficiently representative of the whole segment.

A sample is a group of elements (persons, stores, financial reports) chosen for research purposes from among a "total population" or "universe" of all possible participants who fit the target criteria for research subjects. The value of a research project is directly affected by how well the sample has been conceived and constructed.

The first critical question in sampling is getting the right participant profile; whom, exactly, should you talk to or study for this marketing research? For example, if a research project is about laundry soap, the sampling plan must identify the right individuals to contact. Is it the person in the household who *buys* laundry soap? Is it the person who usually *does* the laundry? Is it the supermarket inventory manager who decides which products and brands to stock? Any of these individuals could be the right research subject, depending on what problems and questions the marketing research project is trying to address.

Another essential question is sample size: How many people must participate in the research to give valid results? A small project involving in-depth interviews or focus groups might require recruiting just a dozen research participants or thereabouts. A large qualitative survey might involve hundreds or even thousands of individuals in order to yield the type of data and desired level of reliability in the results.

Marketing researchers must also determine how to identify potential participants. For some projects, a company's own customer and prospective customer records provide enough names within a target segment to complete the research. For other projects, marketing researchers must purchase lists of individuals who fit the target profile, or they may pay a marketing research services company to recruit participants. Another option for some projects is to use a panel: a group of people who have been recruited by an organization to participate in periodic research projects. While these are effectively professional (paid) marketing research subjects, if they happen to fit the respondent profile, they may still provide useful data and perspectives. Because their members are pre-screened for a wide variety of

criteria, panels can be extremely useful for reaching hard-to-find individuals amongst the general population—such as people who drive Volkswagen vehicles or parents of teenagers.

How researchers select the individuals who will participate—also known as the sampling procedure—is another important consideration. All sampling procedures can be classified as either *probability* samples or *nonprobability* samples. In a probability sample, each individual has a known chance of being selected for inclusion in the sample. The simplest version is the simple random sample, in which each individual in the research population has exactly the same chance of selection. For example, a sample of names could be selected from the company's customer list according to a random process, such as using a randomization algorithm to order the list.

While in a *probability* sample the sampling units have a known chance of being selected, in a *nonprobability* sample the sampling units are selected arbitrarily or according to a marketing researcher's judgment. Returning to the customer list example, instead of using a randomization algorithm to order the list, an arbitrary selection method would be to start research with the first fifty or sixty names on the list. Another method would be for researchers to select a subset of the customer list that includes known individuals or entities that would be great prospects for being willing to participate and provide useful information.

Analyzing Primary Data

Once primary data collection is complete, these projects proceed with the process described previously for analyzing data: interpreting what it means, generating recommendations, and reporting results to the appropriate stakeholders within an organization. As noted above, qualitative research methods do not yield neat percentages and statistically reliable results, so it can be difficult to describe the data in these projects. Summarizing key themes and takeaways can be a useful approach, as well as including verbatim comments from research participants that express important points.

Quantitative research usually has a rigorous analysis phase involving cleaning and formatting the data. Researchers apply a variety of statistical tabulations, manipulations, and tests to determine what the data are saying, which findings are truly significant, and what meaningful correlations or relationships exist to offer new insights about the target segment. A key challenge for interpreting quantitative data involves sifting through lots of information and data points to determine which findings are most important and what they mean as organizations take steps to apply the results of marketing research. With this in mind, it can be helpful for marketers and researchers to look for the story quantitative data tell; what is the picture they paint of the problem, and how should managers understand the problem (and possible solutions) differently as a result of the research?

This type of approach can help managers, marketers, and teams who are stakeholders in the marketing research better understand and digest the insights provided by the research project and take action accordingly.

Learning Objectives

Apply data collection methods.

A simple data collection method

There are many ways to collect data, some of which you will explore in more advanced courses. Previously, we discussed the need to develop a clear value proposition and to understand customer choice criteria. In this chapter, we look at one simple example of a way to collect such information

Repertory Grid Analysis

Repertory Grid analysis was developed by a clinical psychologist called George Kelly.[12] Kelly also developed the Personal Construct Theory (PCT). PCT suggests that people develop their own mental models of the world, usually based on their own personal experiences. These models are composed of 'constructs', which are the rules that determine the model of the world that people have in their heads. In some ways, constructs can be seen as similar to beliefs. We all carry these models in our heads, determining what we like, what we don't like, and what our preferences are for any given situation. The model changes over time.

As a means to measure PCT, Kelly developed the Repertory Grid interview technique. This has been widely used in research and it is particularly useful in marketing research because of its simplicity combined with the ability to elicit a clear model around what is important to respondents.

Repertory Grid Interviews

Repertory Grids are developed through interviews or focus groups. For marketing research, a company may gather together a small group of people who are representative of the customers in a particular market. The group should represent the demographics and other characteristics of customers in the market. Often, a study will feature several differing focus groups with slightly differing sets of customers. For example, one group could be people in their teens, while another could feature just people aged 30 or older. Others might be limited by gender or by where they live and shop.

1. Jankowicz, D. (2004), The Easy Guide to Repertory Grids, John Wiley & Sons Ltd, Chichester, UK.

2. Kelly, G. A. (1970). A brief introduction to personal construct theory. Perspectives in personal construct theory, 1(29), 1-25.

The focus group will usually be conducted by a moderator who is trained both in the repertory grid method and also understands the problem the client company needs to solve.

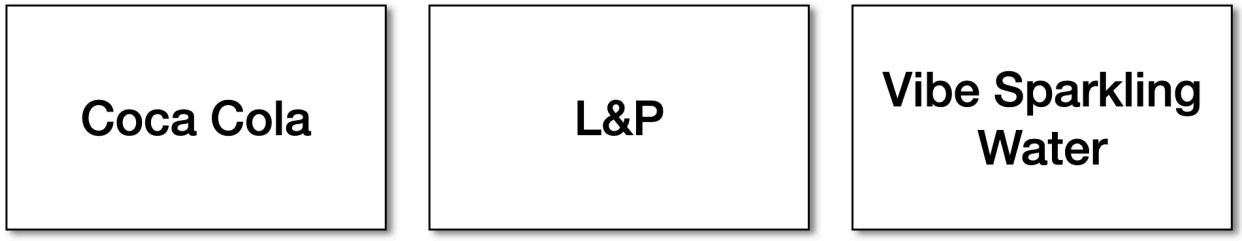
The focus group will begin with the moderator explaining the purpose of the discussion. They would then introduce so-called **Elements** which respondents will evaluate to elicit **Constructs**. For a marketing repertory grid, the Elements might be a list of brands, or more general products or product categories, stores, new product ideas, package designs, shopping channels, or something else relating to the client's business.

For example, imagine you represent a carbonated soft drink brand and need to develop a list of choice criteria for how customers evaluate and choose the different brands of carbonated soft drinks available in a particular market. You could do this through a focus group that uses Repertory Grid.

There is no one way to conduct a Repertory Grid focus group, but a simple example would be to write each of the Elements on a single piece of card (which the moderator would prepare in advance). The moderator would then present these cards in sets of three to the focus group participants.

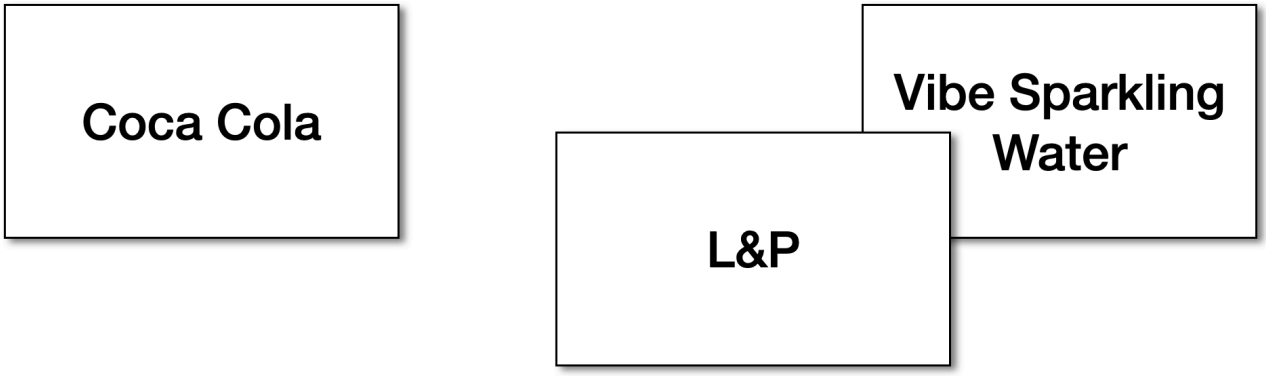
- The Elements would be the various brands of carbonated drinks in the market in question.
- The Constructs would be the rules or perceptions that focus group respondents elicit during the focus group discussion.

The first three cards might show Coca-Cola, L&P, and Vibe Sparkling Water.



Present three competing brands

After presenting three cards to the focus group, have respondents discuss the characteristics of each one and split the three into a pair (two cards) and a separate card. Respondents should be free to separate cards however they wish, with as little input as possible from the focus group moderator:



Respondents suggest L&P and Vibe are different to Coca-Cola.

Once respondents have made their choice, the moderator should have respondents explain the difference. Sometimes, respondents are able to identify multiple different factors for the same split:

- Coca-Cola is American – L&P and Vibe Sparkling Water are New Zealand brands
- Coca-Cola has many different package sizes – L&P and Vibe Sparkling Water have only a few package sizes
- Coca-Cola is expensive – L&P and Vibe Sparkling Water are relatively cheap

And so on. Each point made in this way is a Construct in the Repertory Grid. Remember: it is the respondents' perceptions that are key to this exercise, so the moderator should not make any judgement. Once respondents have run out of ideas for a particular split of cards, the moderator can then ask respondents for other ideas. For example:

Coca-Cola and L&P vs Vibe Sparkling Water

Once again, the moderator should ask respondents to explain why they separated the cards in this way. For example:

- Coca-Cola and L&P are high sugar content – Vibe Sparkling Water is low sugar content
- Coca-Cola and L&P come in large, plastic bottles – Vibe Sparkling Water comes in cans that are easier to recycle

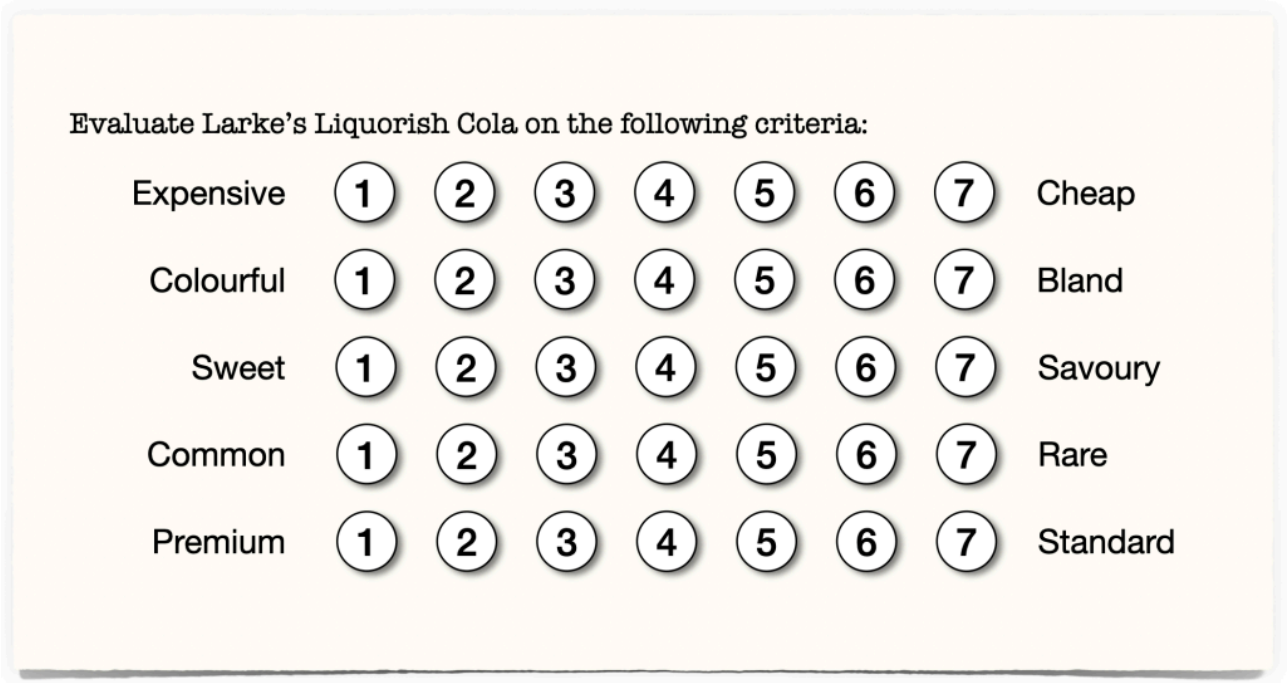
And so on again. Constructs do not need to be matching pairs, and they do not need to be explained. These are genuine perceptions of genuine customers, and so point directly to the factors they consider when making a choice between multiple options.

Once respondents can no longer separate the three cards into two and one, the moderator should then introduce a new set of three, keeping in mind that they should re-use items that respondents have already evaluated. For example:

Three new brands: Good Buzz Kombucha, Irn-Bru and Vibe Sparkling Water.

The focus group discussion would continue until all the cards had been evaluated by respondents, mixing and matching them into different pairs. At the end of the focus group, moderators should have written down a great many paired constructs. By analysing these constructs in more detail, it is then possible to consolidate the list into the commonly elicited choice criteria used by customers.

These choice criteria can then be used in competitive analyses or for other activities. For example, as focus group research requires respondents to be present to answer questions, it is relatively time-consuming and, consequently, high cost. However, once a list of constructs is developed, that list can then be used in a much larger questionnaire survey across a broader sample of respondents to gain further insight. As the constructs are developed in pairs, they are easily adapted to a Likert-type scale, with questionnaire respondents indicating their relative agreement between the two constructs presented.



A possible example of part of a questionnaire based on constructs derived from the Repertory Grid.

There are many marketing research techniques that can be used to elicit clearer data on customer choice criteria. The Repertory Grid technique is a relatively simple one. This same technique can be used in many other ways when choice criteria are required, such as evaluating possible job options or choosing which paper to take.

Further Reading in Repertory Grid and Personal Construct Theory

You can read more about the use of Repertory Grid for data collection and analysis in the area of marketing through the following sources:

- Kelly, G. A. (1970). A brief introduction to personal construct theory. *Perspectives in personal construct theory*, 1(29), 1-25.
- Caldwell, N. and Coshall, J. (2002), "Measuring brand associations for museums and galleries using repertory grid analysis", *Management Decision*, Vol. 40 No. 4, pp. 383-392.
- Hankinson, G. (2005), "Destination brand images: a business tourism perspective", *Journal of Services Marketing*, Vol. 19 No. 1, pp. 24-32.
- Rocchi, B. and Stefani, G. (2006), "Consumers' perception of wine packaging: a case study", *International Journal of Wine Marketing*, Vol. 18 No. 1, pp. 33-4.
- Bourne, D., & Jankowicz, D. A. (2018). The repertory grid technique. *Qualitative Methodologies in Organization Studies: Volume II: Methods and Possibilities*, 127-149.
- Emerald Publishing (2024) *How to use a Repertory Grid*. URL: https://www.emeraldgrouppublishing.com/how-to/observation/use-a-repertory-grid#:~:text=The%20repertory%20grid%20is%20a,the%20form%20of%20a%20grid. Accessed 1 June 2024.

8.6 MARKETING DATA SOURCES

Learning Objectives

Identify major sources of available marketing data

Marketing information and research are powerful tools to improve your understanding of your customers, competitors, and the industry and market in which you work. In today's information-rich world, many great sources of marketing data are already available. Knowing what they are and how to find them is a great skill for any marketer.

Learning Activities

- Reading: Marketing Data Sources

Marketing Information: Where the Data Are

Earlier sections of this module alluded to excellent sources of marketing data, many of which are freely available or carry a minimal cost. Others are well-respected commercial sources of marketing data and customer insights. This reading provides an overview of useful go-to data sources that marketers should know about, should the occasion arise to use them. The data sources recommended below are a representative sampling, rather than a complete list.

It is also worth noting that the marketing information landscape is continually changing. Marketers would be well served to continually scan for new developments and information sources that may be beneficial to improve their understanding of customers and ways of serving them.

Publicly Available Data Sources

Government agencies, non-profit organizations, and non-governmental organizations often publish freely available data that may inform marketers' understanding of consumers, customers, the geographies, and industry sectors where they operate. Great information sources include the following:

Publicly Available Data Sources

Source	Description
Google Public Data Directory	A directory of publicly available data sources from around the world.
Google Trends	A search tool for exploring search volume for any term used in a Google search.
Pew Research Center	Public opinion and research reports from a non-partisan, American think tank. Freely available research covers social issues, public opinion, and demographic trends shaping the United States and the world.
United Nations UNdata	A data service of the United Nations that provides centralized access to a wide variety of U.N.-maintained data sets such as demographics, socioeconomic status, and development indicators for nations around the world.
World Bank Data	Economic data and economic development indicators for 100+ countries around the world.
World Trade Organization (WTO) Data	Information about international trade and tariffs and the regulatory environment for 100+ WTO member countries.

Syndicated Marketing Research Data

A number of commercial companies provide syndicated marketing research that is well respected and often well used by organizations that subscribe to their services. A sampling of these services is provided below:

Syndicated Marketing Research Data

Source	Description
Acxiom	Extensive consumer datasets containing demographic, purchasing, credit, and other information companies can map to their own customer and prospect data for research, marketing analytics, and marketing campaign execution.
Experian	Extensive consumer datasets containing demographic, purchasing, credit, and other information that companies can map to their own consumer and prospect data for research, marketing analytics, and marketing campaign execution.
Ipsos	Canadian syndicated surveys on a range of topics.
IRI	Point-of-sale data linked to household panel purchasing data, providing detail around sales, pricing, promotion, and market share for a variety of consumer products.
Media Audit	Audience demographics and media consumption profiles for 100+ media markets in the U.S.
MRI Simmons (formerly GfK MRI and MediaMark)	Extensive datasets around multimedia audience research and measurement.
Nielsen	Point-of-sale data linked to household panel purchasing data, providing detail around sales, pricing, promotion, and market share for a variety of consumer products. Datasets to support popular lifestyle and behavioral segmentation systems such as PRIZM.
Roper Center for Public Opinion Research	Database of public opinion and polling questions exploring many aspects of American life, including contemporary data as well as polling data dating back to the 1930s.
Yankelovich	MONITOR provides long-running syndicated research about consumer values, attitudes, and trends.
Environics	Canadian syndicated surveys on a range of topics.

Other Useful Sources for Marketing Data

These additional sources for other types of marketing information also warrant attention. Whether or not marketers use them, they should be aware of these tools and how they can be useful for a variety of marketing purposes.

Other Useful Sources for Marketing Data

Source	Description
Google Analytics	Detailed analytics, statistics, and insights about website traffic, usability, and sales effectiveness. Free and premium services available.
LexisNexis	Searchable source for full-text articles from regional, national and international newspapers, government documents, and many legal, medical, and business publications.
Statista	A subscription-based statistics portal, providing searchable access to many original sources of market, industry, and business data.

8.7 CUSTOMER RELATIONSHIP MANAGEMENT (CRM) SYSTEMS

Learning Objectives

- Define CRM systems and explain their purpose
- Describe the types of marketing information CRM systems can capture and why it is valuable for generating customer insights
- Explain how customer relationship management (CRM) systems can help organizations manage and gain customer insights from marketing information

To round out our discussion of marketing information and research, we need to add one more important tool to the mix: customer relationship management (CRM) systems. These increasingly prevalent systems are the centerpiece in how many organizations make sense of and manage marketing data about current and prospective customers. A basic understanding of CRM systems can help you recognize their potential for helping organizations use marketing information more effectively.

Learning Activities

- Reading: Customer Relationship Management Systems

The Importance of Customer Market Analysis

Hubspot is an American developer and marketer of software products for inbound marketing, sales, and customer service. HubSpot was founded by Brian Halligan and Dharmesh Shah in 2006 (Wikipedia). Hubspot produces a wide range of educational materials, mostly related to digital marketing topics such as SEO, CRM, social media marketing and content marketing.

As the use of research techniques to understand customer behaviour are so important, Hubspot has its own YouTube video summary:

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=992#oembed-1

Marketing Information and Customer Relationship Management (CRM)

Earlier in this course, we cited the American Marketing Association's definition of customer relationship management: "a discipline in marketing combining database and computer technology with customer service and marketing communications." The AMA's definition goes on to describe the ultimate goal of customer relationship management as the ability to provide "meaningful one-on-one communications with the customer by applying customer data (demographic, industry, buying history, etc.) to every communications vehicle."[1] Because customer relationship management (CRM) relies on customer data—and specifically the effective use of internal data—it's important to discuss CRM systems in the context of marketing information and research.

CRM systems are powerful software systems that serve several essential functions for marketing, sales, and account management. Organizations use them to:

- Capture internal data about customers and customer interactions and house these data in a central location
- Provide business users with access to customer data in order to inform a variety of customer touchpoints and interactions
- Conduct data analysis and generate insights about how to better meet the needs of target segments and individual customers
- Deliver a marketing mix tailored to the needs and interests of these target segments and individual customers

Leading providers of CRM systems include Salesforce.com, Oracle (Siebel), and Microsoft, among others. These large, many-faceted systems include several components. Databases and data warehouses provide an information infrastructure for storing and accessing customer information. Contact management capabilities allow organizations to track a variety of customer interactions, including how each customer or prospective customer relationship is progressing over time. CRM packages also include sophisticated analytical tools to help marketing and sales analysts examine the data and find patterns and correlations that help them better anticipate and address customer needs (with the goal of strengthening each customer relationship).

Does this analytical process sound familiar? It should. Marketing analysts working with CRM data follow the same basic process outlined previously for general marketing research activities: identify the problem; develop a plan for the information and analysis needed to solve the problem; conduct research; analyze and report findings; and take action based on the results. The primary difference from traditional marketing research projects is that CRM inquiries may be more self-contained because of the breadth of marketing information and tools these systems provide.

The CRM system is especially effective at helping to surface a marketing problem, and it can provide the internal data needed for an analysis, which, in turn, is used to solve the problem. CRM systems are designed to capture data across the customer life cycle, starting with the initial contact point and progressing through each conversation and

1. https://www.ama.org/resources/Pages/Dictionary.aspx?dLetter=C

interaction that moves a prospective customer toward a purchasing decision. CRM systems also capture sales and spending data, and they enable analysts to project future spending patterns and lifetime value based on broader patterns in the customer data. These systems may also incorporate data about customer satisfaction and support, with accompanying insights into what is driving satisfaction ratings and customers' perceptions of the company. In addition to bringing together disparate customer data, CRM systems can recommend an analytical approach and provide research tools to complete the analysis. Many CRM systems have mechanisms for reporting results, orchestrating plans for taking action on the results, and even evaluating the effectiveness of those actions.

Amazon Web Services and Salesforce

Consider the following example of how Amazon Web Services is using Salesforce.com (a CRM provider) to improve its ability to engage customers and design better products. Notice the company's emphasis on *connecting* the customers—with products, services, and other people—and why that's such a key part of what the CRM system provides.

Read some of the Salesforce.com customer success stories.

8.8 USING MARKETING INFORMATION

Learning Objectives

- Explain and provide examples of how marketers can use marketing information to improve the marketing mix
- Use marketing information to inform the marketing strategy

After you work through the process of identifying a problem, collecting and analyzing the best marketing information available, you arrive at the moment you've been waiting for: You can use this information to guide your decisions about marketing strategy. That strategy is aimed at getting you the results you need.

We've already described this final part of the overall marketing research process, but in this section you'll get a chance to see how real-world companies undertake this final, important step.

Learning Activities

- Reading: Using Marketing Information

Translating Marketing Information into Action

With marketing information and research results collected, it's now the responsibility of marketers to share this information internally with people who need to understand it. It's standard practice to hold meetings with appropriate team members to walk through the research findings and brainstorm together about how to apply the results to marketing strategy and operations. It's also good practice to make the research report available on a company intranet or other central forum, where people who need the information can readily find and access it.

The reception to research results may vary from person to person or from team to team. In some cases, where marketers have been waiting on the research results before they move forward, the new information fills a gap in their knowledge. They are likely very eager to take guidance from the research and charge ahead. In other cases, marketers may have a vested interest in continuing to do the things they've always done—perhaps because they dislike change or because they think the original course of action is still working. In these situations, if the research suggests that a course change is necessary, there may be significant resistance.

Start Conversations About New Customer Insights

To help encourage a better reception of what the organization is learning from marketing information, it may be useful to review the original problem the research is trying to solve. Remind team members that the goal of using marketing information is to gain new customer insights that will help make the organization more effective. With this in mind, marketers should think about how the research results can help them better understand customers and translate this understanding into adjustments to the marketing mix to better address customers' needs. By framing research results around a deeper or broader understanding of the customer, it can help defuse resistance and make people feel more informed and empowered to make good marketing decisions.

The following section lists the types of questions marketers can explore as they brainstorm about how marketing information and research results can help them adjust marketing strategy and improve the marketing mix. These questions are a useful jumping-off point for deeper conversations about new customer insights and how to put them into action.

Using Marketing Information to Shape Marketing Strategy: Types of Questions to Explore

Target Segment(s)

- What new insights do we have about our target segment(s)?
- Which problems should we be solving for our customers?
- Are we targeting the right segments?

Product

- What attracts customers to our products?
- What improvements would make them even more attractive to our target segments?

Promotion

- What types of messages will make target segments want our products?
- What types of promotional campaigns will work best for each target segment?
- Who do our target segments listen to, and what are they saying about us?

Price

- How are we doing at providing good value for the price?
- How does our pricing affect customers' willingness to buy?
- How would changes to pricing affect sales?

Place

- Are we offering our products in the places and times that target segments feel the need for them? If not, how can we improve?
- How can we make it easier for customers to find and buy our products?
- Are there more efficient ways for us to get out products into customers' hands?

Don't Forget to Measure Impact

As marketers begin to apply the research findings and recommendations, it is essential to track the impact of the new strategy to determine whether the original problem or challenge is being addressed. For example, if the original marketing problem was focused on improving the messaging associated with a product, then the organization should start to see improved lead generation, inquiries, and/or sales once the new messaging is adopted and implemented. If the original marketing problem was focused on which segments to target and how to reach them, organizations should be able to track improvements in interest and sales among these segments after they have begun to implement a market mix focused on these segments.

This link between taking action and measuring results is important. It provides a continuous stream of marketing information to help marketers understand if they are on the right path and where to continue to make adjustments. Eventually, this process will surface new marketing problems that warrant attention through the marketing research process. In this way, the process of using marketing information to solve problems becomes a continuous cycle.

What does this process look like in the real world? Let's examine two examples.

Example One: Procter & Gamble Goes to China

For decades, the consumer products company Procter & Gamble has been a visible leader when it comes

to relying on marketing research and using it to guide marketing strategy decisions. In particular, it has focused on ways of entering new markets and establishing a leading market position. As it explored opportunities for market leadership in China, one standout product category was disposable diapers, a profitable category for P&G in the U.S. and other global markets.

In the early 2000s, the company rushed in to launch Pampers in China, its leading disposable diaper brand. The effort flopped. Culturally, Chinese parents did not see the need for the new American disposable diaper product. They were doing fine using cloth diapers and *kaidangku*, the open-crotch pants used traditionally for infants and young children. Instead of pulling out, P&G turned to marketing research for additional insights about ways of generating demand for Pampers. The research focused on identifying the "winning qualities" of disposable diapers that would make Chinese mothers interested in trying the product. It concluded that improving infants' sleep quality could become a powerful motivator.

In 2007, P&G launched a campaign called "Golden Sleep" to promote the idea that Pampers disposable diapers can help babies fall asleep faster and sleep with less disruption. Marketing research was directly responsible for P&G's adjustments to product positioning and promotion strategy. The campaign invited parents to upload pictures of their sleeping babies to a Chinese Pampers website. This reinforced the link between Pampers products and the message of "better sleep for babies." The ad campaign also featured research results linked to Pampers and infant sleep such as, "Baby Sleeps with 50 percent Less Disruption," and "Baby Falls Asleep 30 percent Faster."

"Golden Sleep" was a tremendous success, moving Pampers to a leading market position and creating broad demand for a product category that was previously almost nonexistent in China. P&G attributes this success to the insights generated by a marketing team and research effort focused on better understanding and addressing customer needs.[1]

Example Two: Shaking Up the Milkshake

A fast-food restaurant chain identified milkshakes as a focus for improving sales. Initial marketing research efforts were focused on creating a "typical" milkshake-drinker profile. The researchers then found people who fit the profile and were willing to help them understand what constituted the ideal milkshake: thick or thin? Which flavors? Smooth or chunky? These efforts led the company to tinker with its milkshake products, segmentation, targeting, and promotion strategies, but sales still did not improve.

The company hired an outside researcher to help the company understand what they might be missing about milkshakes. This researcher spent time in a restaurant observing and documenting milkshake sales, as well as talking to milkshake buyers about why they had made their product choice. A couple of key insights emerged about milkshake buyers. First and somewhat surprising, 40 percent of milkshake sales

1. http://www.forbes.com/sites/china/2010/04/27/how-procter-and-gamble-cultivates-customers-in-china/

took place early in the morning, and the buyers were commuters on their way to work. Second, the ideal milkshake for these customers was thick and substantial but easy to consume during a commute. Third, another key buyer audience was parents purchasing a treat for children, but the ideal milkshake for them was a thinner product children can drink quickly with a straw.

Acting on these new insights, the company adjusted its marketing strategy. Instead of focusing on a single "milkshake buyer" profile, it reformulated its milkshake products and promotion strategy to better fit the needs of different types of target milkshake customers. It offered a thicker, chunkier "morning milkshake" to appeal to commuters who wanted a satisfying alternative to a morning donut or bagel. The chain also introduced a different milkshake positioned as a kid treat, which offered the thinner, easier-and-quicker-to-drink benefits parents wanted. Persistence and perseverance in the marketing research process led the company to dig deeper to understand customers, their unique needs, and how to adjust marketing strategy in response to this new information.[2]

2. http://hbswk.hbs.edu/item/clay-christensens-milkshake-marketing

8.9 PUTTING IT TOGETHER: MARKETING INFORMATION AND RESEARCH

Back to Bookends

Let's pay Uncle Dan and his bookstore another visit, now that you're a little further along in your understanding of marketing research.

You'll remember that you and Dan conducted both primary and secondary research to get a handle on who Bookends' customers are—and who they aren't. With the help of your cousin Marina, you crunched the data and identified three target segments you believe Dan should focus on. Here is the profile data you compiled for them:

Bookends Target Segment Profiles

Characteristics	Bored Empty-Nesters	Busy Families	Hipster Wannabes
Age & family status	45–75, mix of single and married	25–50, mostly married with kids under 12	15–35, mostly single
Times most likely to visit Bookends	Daytime, evenings, weekends, holidays	After school, weekends, summertime, holidays	Evenings & weekends
Most likely to buy	Cards, gifts, novels, history/biography	Kids' books, how-to books, bestsellers	Magazines, used books, graphic novels, snacks
Why they come to Bookends	Socialize, shop, read	Family outing	Socialize
Communications preferences	Hard copy, email, face-to-face	Email, texting, Facebook	Texting, Twitter, Instagram & beyond
Effective promotions	Coupons, loyalty cards	Loyalty points (recorded electronically)	Point-of-sale
What they wish Bookends would offer	Book clubs & discounts	More hours in the day	Coffee, beer & wine, live music
% of all customers/month	36%	27%	21%
Avg. # of customers/ month	144	108	84
% of monthly revenue	43%	29%	18%
Avg. monthly revenue/ person	$30	$27	$21

Source: Lumen Learning. Putting It Together: Marketing Information and Research, in Module 6. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/putting-it-together-marketing-research/

Together, these segments make up more than 80 percent of Bookends' clientele and about 90 percent of its monthly revenue. Looking at what they buy and why they come to Bookends, you're getting some good ideas for ways of making the store more attractive for current customers, and you've got some ideas for bringing in new ones.

With this new and improved information, it's time to get to work on a marketing strategy and mix for each target segment.

Marketing Strategy: Bored Empty-Nesters

Bookends' Bored Empty-Nesters are both the largest and the most profitable of the target segments. They have more time and more disposable income, and they spend more of both at your uncle's bookstore. They like to use Bookends as a meeting place with friends and acquaintances, and you think that is a promising direction. You and your uncle brainstorm about ways of using the four Ps to win over even more of these customers (and get them to spend). The "product" you're adjusting is not just the books you carry, but the whole experience customers have when the come to Bookends. Dan is excited about introducing book clubs—one for fiction and one for nonfiction books—to cater to this segment's interests. Since Empty-Nesters have told you they love both socializing and getting a discount, you and Dan are trying out a "buddy night" promotion, in which people get a better price if they talk their friends into spending at Bookends, too.

Here is your Bored Empty-Nester game plan for the next couple of months:

Bookends Segment Strategy: Bored Empty-Nesters

Element	Marketing Mix Adjustment
Marketing Goals	15% increase in store visitors for this segment 20% increase in monthly revenue per person
Product	Carry larger selection of history and biography Adjust shelves and seating to create more socializing spaces Launch two book clubs led by Dan and longtime employee Emma, one featuring new fiction and the other on new nonfiction
Promotion	Print flyers, posters, and send emails about book clubs, buddy discount Set up in-store sign-up table for book club Introduce Thursday night "buddy discount": Get 5% off if you and a buddy each spend over $20 Explore interest in loyalty program: Spend $100 to get 10% discount on next purchase
Price	Offer 5% discount on monthly book club selection
Place	No changes (yet). Explore opening online store

Source: Lumen Learning. Primary Marketing Research Methods, in Module 6. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-primary-market-research-methods/

Marketing Strategy: Busy Families

Research tells you that Busy Families come to Bookends as a family outing, so you need to make some aspects of the store more family-friendly, without ruining the atmosphere for your other target segments. The socializing-area adjustments you're already planning for the Empty Nesters will be good for the Family segment, as well. You're trying to get parents to spend a little more money at Bookends each month, so you're adding a small toy section, a slightly expanded children's book section, and also bottled drinks, packaged cookies, and brownies from a delicious local bakery. These adjustments add to the Bookends experience and include some new items Dan can sell with a nice profit markup.

Your Busy Families marketing mix is shaping up like this:

Bookends Segment Strategy: Busy Families

Element	Marketing Mix Adjustment
Marketing Goals	10% increase in store visitors for this segment 10% increase in monthly revenue per person
Product	Increase selection of DIY, crafting, and "How-To" books Slightly expand children's book selection and add a small toy section Add child seating to the kids' area, and donate your old train table to the Bookends cause Hold children's story hour on Tuesdays and Saturdays with stories, songs, games Sell packaged baked goods from a local bakery and bottled drinks
Promotion	Send emails and post to Facebook about story time, bigger kids' area, buddy discount, social media discount promo Explore interest in loyalty program: Spend $100 to get 10% discount on next purchase
Price	Run Facebook promotion offering 5% discount to people who post about Bookends
Place	No changes (yet). Explore opening online store

Source: Lumen Learning. Putting It Together: Marketing Information and Research, in Module 6. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/putting-it-together-marketing-research/

Marketing Strategy: Wannabe Hipsters

The Wannabe Hipsters are an interesting group. You almost didn't include them in the three target segments because they are a smaller-sized group and don't spend as much as the others. However, they do make up one in five Bookends customers, so it's worth reaching out to see if you can bring more of them into the store and get them to spend more money while there. Fortunately, they like to come to Bookends during times when there aren't many Busy Families around, so that opens some unique possibilities for ways of appealing to both segments.

Dan is excited about your suggestion to invite local bands to perform on Saturday nights. The Hipsters you spoke with suggested Dan try this, and it could make Bookends more of a social draw for that crowd. By rearranging shelving to create more socializing space, it opens up enough area for a live band to play for a small audience. You're not convinced it's going to translate into more book sales, but it's worth a try.

The Hipster crowd has decidedly different communication preferences compared to the other groups, so your communication and promotion activities reflect this. To make sure they see the buddy discounts you're offering, you suggest that Dan add signage about this promotion near the checkout counter, since that's the place this audience is most likely to notice it.

The broad strokes of your Hipster Wannabe strategy are the following:

Bookends Segment Strategy: Hipster Wannabe

Element	Marketing Mix Adjustment
Marketing Goals	15% increase in store visitors for this segment 20% increase in monthly revenue per person
Product	Adjust shelves and seating to create more socializing spaces Invite local bands to play on Saturday evenings Add more prominent shelf placement to feature graphic novels Sell packaged baked goods from a local bakery and bottled drinks
Promotion	Promote live music nights and buddy discount nights via social media Add point-of-sale signage about Thursday and Saturday night "buddy discounts" Explore interest in loyalty program: Spend $100 to get 10% discount on next purchase
Price	Thursday and Saturday night "buddy discounts": Get 5% off if you and a buddy each spend over $20
Place	No changes (yet). Explore opening online store.

Source: Lumen Learning. Putting It Together: Marketing Information and Research, in Module 6. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/putting-it-together-marketing-research/

Onward and Upward for Bookends

After running the numbers with Dan, you are optimistic that outreach to these target audiences will be the jumpstart his business needs. Your use of near-term promotions and events will help generate renewed interest and traffic for the store. You have advised Dan to explore interest in and options for a customer loyalty program that rewards customers for spending more at Bookends. That's what the next round of marketing research will investigate.

In the meantime, you've learned a lot about the marketing research process and how to turn marketing information into future marketing strategies and plans. You're excited to keep helping Dan as he puts your ideas to work, and, best of all, if business at the Bookends really starts to improve, you've got free graphic novels for life.

CHAPTER 9: PRODUCT MARKETING

Learning Objectives

- Explain why product marketing matters
- Explain what a product is and the importance of products in the marketing mix
- Discuss the product life cycle and its implications for marketing
- Explain product portfolio management and how it relates to the organization's marketing strategy and tactics
- Define the process for creating new products
- Identify the challenges associated with creating a successful new product

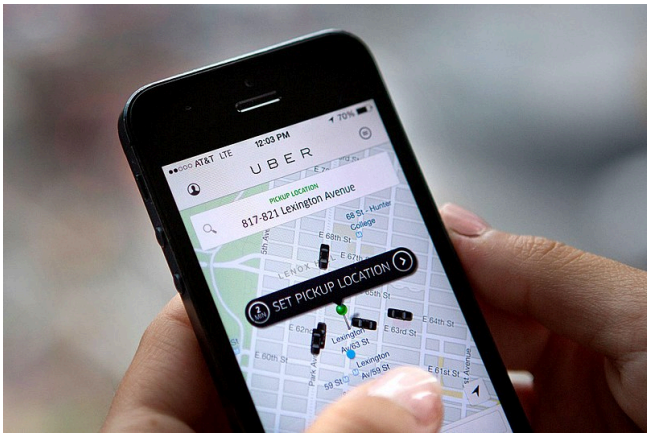
9.1 WHY IT MATTERS: PRODUCT MARKETING

Learning Objectives

- Why product marketing matters
- Why make product marketing decisions based on product life cycle and product portfolio structure?

Often when students begin to study marketing they expect to study promotion or perhaps only advertising, but product is the core of the marketing mix. Product defines what will be priced, promoted, and distributed. If you are able to create and deliver a product that provides exceptional value to your target customer, the rest of the marketing mix becomes easier to manage. A successful product makes every aspect of a marketer's job easier—and more fun.

Is it possible to offer a product that is so good it markets itself? Yes. When this is the case, marketers can employ something called *viral marketing*, which is a method of product promotion that relies on customers to market an idea, product, or service themselves by telling their friends. Generally, in order for viral marketing to work, the product must be so compelling that customers who use it can't stop talking about it.



Let's look at an example of viral marketing and a successful new product that has changed transportation in cities around the world. How did the individuals who created the product at the beginning of its life cycle develop a winning product concept and take it to market?

Technically speaking, Uber is a ride-sharing solution—an incredibly successful one. The company launched in June 2010, and today Uber drivers provide well over one million rides each day to passengers around the globe. The company's self-reported annual revenue for 2018 was $11.3 billion.[1]

When a passenger needs a ride, they simply open the Uber app on their phone. They can immediately see the locations of cars nearby and request a pickup. The passenger knows which driver is coming and can track the car's location until it arrives. When the ride is over, the passenger's credit card is automatically billed for the service.

Bill Gurley, a seasoned investor who has put money in Uber, evaluates the company this way: "The product is so

1. https://www.cnbc.com/2019/02/15/uber-2018-financial-results.html

good, there is no one spending hundreds of thousands of dollars on marketing."[2] Industry experts who have analyzed Uber's success agree again and again that Uber took on a problem that was real for many people—poor taxicab availability and abysmal service—and completely fixed it.

> Among the many problems Uber is tackling are: poor cab infrastructure in some cities, poor service, and fulfillment–including dirty cabs, poor customer experience, late cars, drivers unwilling to accept credit cards, and more.
>
> Uber set out to reimagine the entire experience to make it seamless and enjoyable across the board. They didn't fix one aspect of the system (e.g. mobile payments for the existing taxi infrastructure); they tackled the whole experience from mobile hailing, seamless payments, better cars, to no tips and driver ratings.
>
> By avoiding the trap of smaller thinking, and iterating on one element of the taxi experience (say, by making credit card payments more accessible in the car) they were able to create a wow experience that has totally redefined what it means to use a car service, sparking an avalanche of word of mouth and press.[3]

The power of a well-designed product is critical to the marketing mix. If a product creates that "wow experience" and "an avalanche of word of mouth and press," the product itself becomes a competitve advantage in the marketing mix.

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2. http://techcrunch.com/2013/04/29/benchmarks-bill-gurley-uber-is-growing-faster-than-ebay-did/

3. https://growthhackers.com/growth-studies/uber

9.2 PRODUCTS AND MARKETING MIX

Learning Objectives

- Define a product
- Identify difference between products that offer goods versus services
- Explain how to augment a product with services
- Define product marketing
- Explain the role of product marketing in the marketing mix

Let's start by defining what a product is and seeing how it fits in the marketing mix. When thinking about the target customer's perspective, it's useful to have an expansive view of product and keep in mind that the customer experience is not only about the tangible aspects of a good.

For example, imagine that you stop at a fast-food restaurant for a quick sandwich. The sandwich is fresh and delicious and is exactly what you wanted to eat. However, the wait for the sandwich was exceptionally long, the restaurant was filthy, and the sales clerk was rude. Does that change your level of satisfaction?

Or, have you ever been excited to get a bargain on an airline ticket and then been surprised by additional fees for what seem like basic services, such as checking your luggage? Do the fees change your level of satisfaction with the product?

As we explore products and product marketing, you will find that most products include a broader range of components than you might first expect.

Learning Activities

- Reading: Defining Product
- Reading: Consumer Product Categories
- Reading: Products and Services
- Reading: Augmenting Products with Services
- Reading: Product Marketing and the Marketing Mix
- Self Check: Products and Marketing Mix

A product is a bundle of attributes (features, functions, benefits, and uses) that a person receives in an exchange. In essence, the term "product" refers to anything offered by a firm to provide customer satisfaction, tangible or intangible. Thus, a product may be an idea (recycling), a physical good (a pair of jeans), a service (banking), or any combination of the three.[1]

Broadly speaking, products fall into one of two categories: consumer products and business products (also called industrial products and B2B products). Consumer products are purchased by the final consumer. Business products are purchased by other industries or firms and can be classified as *production goods*—i.e., raw materials or component parts used in the production of the final product—or *support goods*—such as machinery, fixed equipment, software systems, and tools that assist in the production process.[2] Some products, like computers, for instance, may be both consumer products and business products, depending on who purchases and uses them.

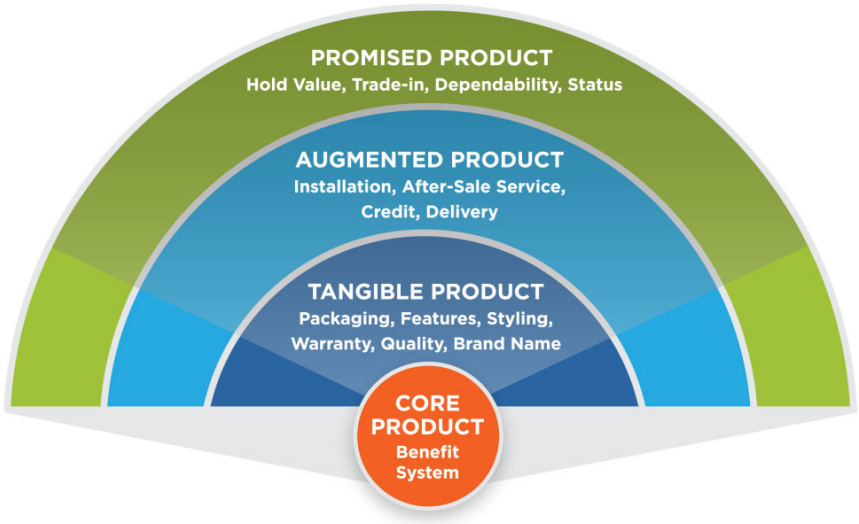
The product fills an important role in the marketing mix because it is the core of the exchange. Does the product provide the features, functions, benefits, and uses that the target customer expects and desires? Throughout our discussion of product, we will focus on the target customer. Often companies become excited about their capabilities, technologies, and ideas and forget the perspective of the customer. This leads to investments in product enhancements or new products that don't provide value to the customer—and, as a result, are unsuccessful.

Four Levels of the Product

There are four levels of a product (shown in the figure below): core, tangible, augmented, and promised. Each is important to understand in order to address the customer's needs and offer the customer a complete experience.

1. AMA. (n.d.) *Definitions of marketing.* American Marketing Association. https://www.ama.org/the-definition-of-marketing-what-is-marketing/

2. Business Dictionary. (n.d.). *Industrial goods*. http://www.businessdictionary.com/definition/industrial-goods.html



FOUR LEVELS OF THE PRODUCT

Source: Lumen Learning. Defining Product, in Module 10. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-defining-product/

The Core Product

The core product satisfies the most basic need of the customer. For example, a consumer who purchases a healthy snack bar may be seeking health, convenience, or simply hunger relief. A student who buys low-priced, sturdy sneakers may just be seeking footwear. A student on a tight budget who buys top-of-the-line sneakers might be hoping to achieve status. Or, the student might be seeking a sense of freedom by splurging on an item that represents a true sense of style, even though they can't really afford it. Footwear, status, and freedom are all legitimate core products. The core product is complex because it is so individualized, and, often, vague. The marketer must have a strong understanding of the target customer (and the different segments of target customers) in order to accurately identify the core product.

The Tangible Product

Once the core product has been identified, the tangible product becomes important. Tangible means "perceptible by touch," so the tangible aspects of a product are those that can be touched and held. This idea can be expanded to also include the characteristics of the product that directly touch the buyer in the buying decision. These are the product elements that the customer will use to evaluate and make choices: the product features, quality level, brand name, styling, and packaging. Every product contains these components to a greater or lesser extent, and they are what the consumer uses when evaluating alternatives.

The importance of each aspect of the tangible product will vary across products, situations, and individuals. For example, let's say the core product is a car (transportation). At age twenty, a consumer might choose a particular brand of car based on features such as gas mileage, styling, and price: such as a Toyota Yaris. A consumer at the age of forty-five, while looking for the same core product, might be searching for different tangible components such as quality level, power, features, and brand prestige: choosing an Audi A6.

The Augmented Product

Every product is backed up by a host of supporting services. The augmented product includes the tangible product and all of the services that support it. Often, the buyer expects these services and would reject the tangible product if they were not available. For example, if you shop at a department store, you are likely focused on a core and tangible product that centers on the merchandise, but you will still expect the store to have restrooms, escalators, and elevators. Dow Chemical, an American chemical and agricultural products manufacturer, has earned a reputation as a company that will bend over backward in order to service an account. It means that a Dow sales representative will visit a troubled farmer after hours in order to solve a serious problem. This extra service is an integral part of the augmented product and a key to their success.

When the tangible product is a service, there is still an augmented product that includes support services. Westin hotels offer hotel nights with a specific set of features as their tangible product. The augmented product also includes dry cleaning services, concierge services, and shuttle services, among others.

In a world with many strong competitors and few unique products, the augmented product is gaining ground, since it creates additional opportunities to differentiate the product from competitive offerings.

The Promised Product

The outer ring of the product is referred to as the *promised product*. Every product has an implied promise, which is a characteristic that is attached to the product over time. The promised product is the long-term result that the customer hopes to achieve by selecting the product. The promised product may be financial—the resale value of a car, home, or property, for example—but it is often more aspirational. The customer hopes to be healthier, happier, more productive, more successful, or enjoy greater status.

Like the core product, the promised product is highly personal. Generally, marketers find that there will be groupings of customers seeking a similar promise but that there is not a single promised product across all customers.

Can the core product and the promised product be the same thing? Yes, they can, but often the core product is more focused on the immediate need and the promised product has a longer-term element.

Let's compare two different examples of the same purchase to understand how the product levels might change for different customers.

- Convenient routing
- Reasonable cost
- Frequent-flier points
- Optimal flight times
- Reasonable cost
- Ease of booking
- Quality of flight experience and service

Purchase Comparison

Impetus to Buy	I need to be in Miami for a meeting next Thursday	I need a break from my stressful life
Core Product	Transportation	Escape, peace of mind
Tangible Product	Airline ticket from New York to Miami	Airline ticket from New York to Miami
Augmented Product	• In-flight meal purchase • Insurance for flight changes	• Full vacation services (hotel, rental car) • In-flight meal and premium drink purchase • Baggage services
Promised Product	Productivity, convenience, success	Escape, peace of mind, happiness

Source: Lumen Learning. Defining Product, in Module 10. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-defining-product/

In the first case, the customer's impetus to buy is transportation, so that is the core product. In the second case, the purchase is more aspirational and less concrete, so the core product and the promised product are quite similar.

For a marketer, the most important element is to have a holistic view of the product. If a marketer believes that they are simply selling airline tickets, then they fail to provide the full product offering that will satisfy either of the customers in the example above. Understanding the motivation and perspective of the target customer is a key (perhaps the most important key) to successful marketing.

Consumer products are often classified into four groups related to different kinds of buying decisions: convenience, shopping, specialty, and unsought products. These are described below.

Convenience Products

A convenience product is an inexpensive product that requires a minimum amount of effort on the part of the consumer in order to select and purchase it. Examples of convenience products are bread, soft drinks, pain reliever, and coffee. They also include headphones, power cords, and other items that are easily misplaced.

From the consumer's perspective, little time, planning, or effort goes into buying convenience products. Often these product purchases are made on impulse, so availability is important. Consumers have come to expect a wide variety of products to be conveniently located at their local supermarkets. They also expect easy online purchase options and low-cost, quick shipping for those purchases. Convenience items are also found in vending machines and kiosks.

For convenience products, the primary marketing strategy is extensive distribution. The product must be available in every conceivable outlet and must be easily accessible in these outlets. These products are usually of low unit value, and they are highly standardized. Marketers must establish a high level of brand awareness and recognition. This is accomplished through extensive mass advertising, sales promotion devices such as coupons and point-of-purchase displays, and effective packaging. Yet, the key is to convince resellers (wholesalers and retailers) to carry the product. If the product is not available when, where, and in a form the consumer desires, the convenience product will fail.

Shopping Products

In contrast, consumers want to be able to compare products categorized as shopping products. Shopping products are usually more expensive and are purchased occasionally. The consumer is more likely to compare a number of options to assess quality, cost, and features.

Although many shopping goods are nationally advertised, in the marketing strategy it is often the ability of the retailer to differentiate itself that generates the sale. If you decide to buy a TV at BestBuy, then you are more likely to evaluate the range of options and prices that BestBuy has to offer. It becomes important for BestBuy to provide a knowledgeable and effective salesperson, and have the right pricing discounts to offer you a competitive deal; BestBuy might also offer you an extended warranty package or in-store service options. While shopping in BestBuy, consumers can easily check prices and options for online retailers, which places even greater pressure on BestBuy to provide the best total value to the shopper. If the retailer can't make the sale, product turnover is slower, and the retailer will have a great deal of their capital tied up in inventory.

There is a distinction between heterogeneous and homogeneous shopping products. Heterogeneous shopping products are unique. Think about shopping for clothing or furniture. There are many stylistic differences, and the shopper is trying to find the best stylistic match at the right price. The purchase decision with heterogeneous shopping products is more likely to be based on finding the right fit than on price alone.

In contrast, homogeneous shopping products are very similar. Take, for example, refrigerators. Each model

has certain features that are available at different price points, but the basic functions of all of the models are very similar. A typical shopper will look for the lowest price available for the features that they desire.

Specialty Products

Specialty goods represent the third product classification. From the consumer's perspective, these products are so unique that it's worth it to go to great lengths to find and purchase them. Almost without exception, price is not the principle factor affecting the sales of specialty goods. Although these products may be custom-made or one-of-a-kind, it is also possible that the marketer has been very successful in differentiating the product in the mind of the consumer.

For example, some consumers feel a strong attachment to their hairstylist or barber. They are more likely to wait for an appointment than schedule time with a different stylist.

Another example is the annual Blizzcon event produced by Blizzard Entertainment. The $200 tickets sell out minutes after they are released, and they are resold at a premium. At the event, attendees get the chance to learn about new video games and play games that have not yet been released. They can also purchase limited-edition promotional items. From a marketer's perspective, in Blizzcon, the company has succeeded in creating a specialty product that has an incredibly high demand. Moreover, Blizzard's customers are paying for the opportunity to be part of a massive marketing event.

It is generally desirable for a marketer to lift their product from the shopping to the specialty class—and keep it there. With the exception of price-cutting, the entire range of marketing activities is needed to accomplish this.

Unsought Products

Unsought products are those the consumer never plans or hopes to buy. These are either products that the customer is unaware of or products the consumer hopes not to need. For example, most consumers hope never to purchase pest control services and try to avoid purchasing funeral plots. Unsought products have a tendency to draw aggressive sales techniques, as it is difficult to get the attention of a buyer who is not seeking the product.

Goods vs. Services

In marketing, are services considered products? Should products that are predominately goods be treated differently than products that are predominantly services? Whether or not there are substantial differences between goods, products, and service products has been the source of debate in marketing. One can assert that "products are products," even though there are some characteristics associated with service products and other characteristic associated with goods products. These differenct characteristics do not mean that customized strategies are necessary for each. One can also assert that evidences exists to support that service products and goods products are different enough to require different marketing strategies.

You may have noticed that throughout this course we use the term "product" broadly to address the full product offering that is comprised of goods, services, and often a combination of both. We've given examples of service products (hotel stays, for instance) and goods products (sneakers and bread, for instance). Thinking inclusively about the tangible and intangible aspects of all products is useful because it creates a more complete view of the customer's product needs and experience. Still, there are unique characteristics of services that set them apart from goods. It is important to understand the differences and to consider them in the development of strategies, tactics, and objectives.

Service products are reflected by a wide variety of industries: utilities, restaurants, educational institutions, consulting firms, hotels, medical care providers, and banking, to name but a few. Beyond these traditional industries, there is a growing sector of software as a service offered by companies that provide individuals and other companies with hosted and managed access to software systems. In 2021, software as a service was a $429.6 billion industry globally and projected to hit $476.6 billion in 2022.[1]In 2019, services accounted for77% percent of the U.S. Gross National Product (GNP)[2]Clearly, the service sector is large and is growing. While all products share certain common facets, service products tend to differ from goods products in a number of ways.

Characteristics of Service Products

As you can see from the examples above, service products are quite diverse. Nonetheless, they tend to have the following characteristics.

Intangible

Leonard Berry offers this useful differentiation: "A good is an object, a device, a thing; a service is a deed, a perfor-

1. https://www.grandviewresearch.com/industry-analysis/business-software-services-market#:~:text=The%20global%20business%20software%20and%20services%20market%20size%20was%20estimated,USD%20474.61%20billion%20in%202022.

2. https://www.statista.com/statistics/270001/distribution-of-gross-domestic-product-gdp-across-economic-sectors-in-the-us/

mance, an effort."[3]With the purchase of a good, you have something tangible—an item that can be seen, touched, tasted, worn, or displayed. That's not true of a service, which is *intangible* (quite literally, "not able to be touched").

Although you pay your money and consume the service, there is nothing tangible to show for it. For example, if you attend a professional football game, you spend money on a ticket and spend nearly three hours taking in the entertainment. After the game, you leave. Unless you have purchased a good at the game, you will not take anything tangible to take away (except, perhaps, the ticket stub).

Simultaneous Production and Consumption

Service products are consumed at the same time they are being produced. The tourist attraction is producing entertainment or pleasure at the same time it is being consumed. In contrast, goods products are produced, stored, and then consumed. A result of this characteristic is that the provider of the service is often present when consumption takes place. Dentists, hotel staff, hairstylists, and ballet dancers are all present when the product is used.

Little Standardization

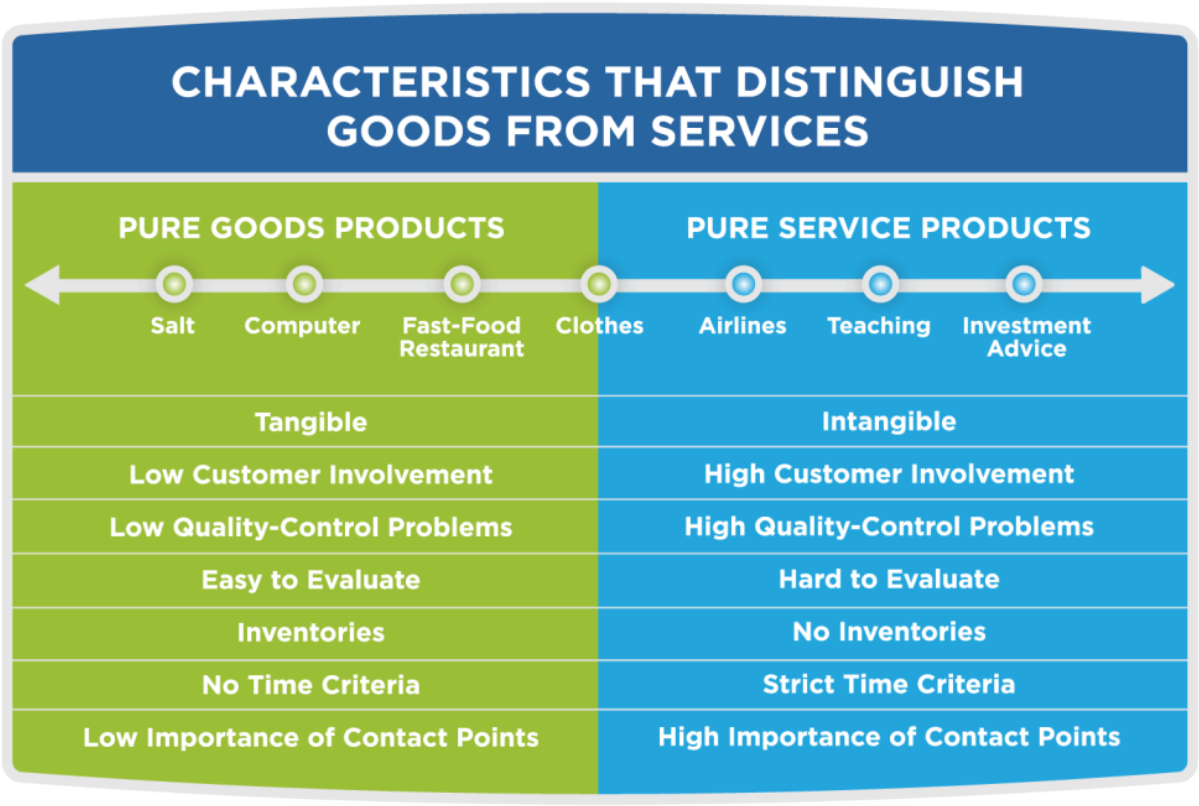
Because service products are so closely related to the people providing the service, ensuring the same level of satisfaction every time is very difficult. Dentists have their bad days, not every baseball game is exciting, and the second vacation to Walt Disney World Resort may not be as wonderful as the first.

High Buyer Involvement

With many service products, the purchaser may provide a great deal of input into the final form of the product. For example, if you wanted to go on a Caribbean cruise, you would visit a number of websites describing the various cruise locations, review the available options for cabin location and size, islands visited, food, entertainment, prices, and whether they accommodate children. Although the task would be very time-consuming, you could, if you wanted, practically design every moment of your vacation.

It should be noted that the four characteristics associated with service products described above vary in intensity from product to product. In fact, service products are best treated as existing on a continuum, shown in the following figure.

3. Leonard L. Berry, "Services Marketing Is Different," *Business* May/June 1980: 24–29.



Source: Lumen Learning. Products and Services, in Module 10. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-products-and-services/

When marketing a service, it's important to remember that (a) service products on the right side of the continuum (i.e., those with greater intangibility) are different from goods products on the left side of the continuum, and (b) service products tend to require certain adjustments in their marketing strategy on account of these differences.

All products, whether they are goods, services, blankets, diapers, or plate glass, possess peculiarities that require adjustments in the marketing effort. However, "pure" goods products and "pure" service products (i.e. those on the extreme ends of the continuum) tend to reflect characteristics and responses from customers that suggest different marketing strategies. Admittedly, offering an exceptional product at the right price, through the most accessible channels, promoted extensively and accurately, should work for any type of product. The goods/services classification provides the same useful insights provided by the B2B/B2C classification discussed earlier.

Earlier we touched on "augmented products," which are tangible products, along with all of the services that support them. When companies devise product strategies and decide whether or not to augment their products with additional services, they typically evaluate whether the following criteria will be met:

1. Services can provide a more complete and satisfying customer experience.
2. Services can increase the total revenue for each sale.

Improved Customer Experience

Relatively speaking, goods tend to be more fixed, and services are more variable. If you're trying to control the quality of a product, the "fixedness" of goods is obviously problematic—perhaps you'll need costly new equipment or production methods or a new product design to make improvements. If you're focused on personalizing the customer experience, though, the variability of services can be a tremendous benefit. A company can provide a range of services around a tangible product—whether that product is a good or a service—thereby providing an enhanced experience for the customer.

Zappos

Zappos provides the quintessential example of an augmented product that adds tremendous value by offering an improved customer experience. You'll recall from the module on corporate strategy that Zappos sells shoes and apparel online. The tangible products are the shoes and clothing items that are delivered to the customer's doorstep. The company has a broad selection and has invested significant capital and effort to create an online shopping experience that is easy and pleasant. The company's tangible products are very good.

However, Zappos is not the low price leader. In fact, its prices are often 5–10 percent higher than other online shoe retailers. Nor does the company do a lot of national advertising to build its brand. Instead, Zappos has focused on creating a "wow" customer service experience that not only exceeds customers' expectations but brings people back again and again. In fact, the company's goal is to be the company that provides the best service online, period—not just in shoes, but in any category. When customers buy shoes online they expect the product to be accurately presented, they expect to receive what they order in a timely fashion, and they expect to receive help with any questions and have any problems with orders resolved. These are fairly standard customer-service features that customers expect along with the delivery of their shoes or clothes. Zappos goes a step further, though, to provide an even higher level of service to all its customers—at no extra charge:

- Zappos has a 100-percent-satisfaction-guaranteed return policy—at no cost to the customer and no complaints about items returned.

- Customer-service employees encourage customers to order two sizes of shoes to make sure they get a pair that fits and return the other.
- The company frequently upgrades orders from valued clients to one-day shipping and sends personal notes expressing appreciation for their business.
- Zappos posts a support phone number on every page of its website. The company has found that only 5 percent of sales come through the phone, but when customers do call, there is an opportunity to create a deeper relationship.

As a result of these services, Zappos' augmented product is significantly more valuable and more differentiated than its tangible product, and it's helped to set Zappos apart as a company that treats its customers well.

Increased Revenue per Customer

It is often the case that augmented services do create new revenue opportunities for the company. Some customers want a different level of service and are willing to pay more for it. By adding services a company can customize its product offering for the segments that desire something more.

Many of these services have become so standard that we hardly think about them. Most electronics come with an option to buy an extended warranty or a higher level of customer support. Airlines provide in-flight meals and drinks; many hotel and rental car packages are essentially augmented products. Many online services such as LinkedIn and the Slack team messaging service offer tiered packages, or offer a free version and a version that includes additional services for a fee.

These services can prove to be highly profitable. Despite LinkedIn's free offering, 39 percent of its 640 million users in 2020 pay for premium services.[1] In 2017, airlines earned $82.2 billion in non-ticket revenue.[2]

Companies often struggle to determine when it is best to add a fee for additional services and when the augmented services should be a free extension of the tangible product. The question often ties back to the company mission and objectives, as well as to the competitive landscape. If Zappos charged customers for the various services the company provides, customers would probably feel irritated instead of pampered. Also, Zappos' extensive customer services are core to the company's mission and strategy. If American Airlines decided not to charge the baggage and change fees that Delta charges, then it would likely need to recoup those costs in higher ticket prices for all customers. Generally, when customers purchase tickets, they consider the base ticket price and not the price that includes all fees. As a result, American Airlines would struggle to compete on ticket prices in a highly price-sensitive market.

Augmented services give marketers a valuable approach to customizing products and better meeting the needs of all target customers.

1. https://99firms.com/blog/linkedin-statistics/#gref
2. https://www.phocuswire.com/cartrawler-ideaworkscompany-2018-ancillary-revenue

The Role of Product Marketing

Product marketing is the function of understanding the target customer's needs and promoting and selling the product to the target customer. In many organisations, this is a different function from product management, which is responsible for defining the product that the company will build. Obviously, the two functions must interact closely, but each has a different primary focus.

The product marketer is focused on the market. This includes analysing and understanding the market, as well as presenting the product to the market. In other words, product marketers must bring information in and effectively communicate it. These activities are summarised in the table below:

Inputs to the company	**Outputs to the market**
Define market needs or problems that the product should address	Define key messages to communicate the product benefits to the target market
Complete a competitive analysis to understand other offerings in the market	Create marketing materials about the product
Identify which market segments the product will target	Define the sales approach
Define market requirements for the product	Create lead generation plans
Create buyer persona documents that describe the personality, behaviour, and desires of buyer types.	Develop sales materials such as website content, brochures, presentations, and product demonstrations.
Determine price	Provide training and support to distribution channel partners

Source: Lumen Learning. Product Marketing in the Marketing Mix, in Module 10. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-product-marketing-in-the-marketing-mix/

The product management function will use the inputs from product marketing to define detailed product requirements and oversee the development of products that meet those requirements. We will discuss the complexity of this process further when we delve into new-product development.

Product marketing and product management are both functions that must be managed well, but in different organisations, they are managed differently. The specific roles of individuals will vary significantly depending on the company and the types of products. In a very large company, there may be teams of individuals in the product marketing function filling very specialised roles. In a very small company, a single individual may fill both the product marketing and product management functions. In general, it is challenging to bridge the gap between product marketing and product management because the skills required to understand and translate broad market needs differ from those needed to create detailed product requirements.

The Marketing Mix

As you can see from the list of responsibilities, the product marketing function is not confined to only one aspect of the marketing mix. Instead, the product marketing function focuses on a single product or product line across the marketing mix. Let's look at a specific example of the product marketing role and a corporate marketing role, and see how they each use the marketing mix.

Source: Lumen Learning. Product Marketing in the Marketing Mix, in Module 10. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-product-marketing-in-the-marketing-mix/

Apple Watch

When Apple introduced the Apple Watch, they had a large team responsible for product marketing. The team was following emerging technology, consumer, and societal trends and identifying what would impact customer needs. They became experts in the features and marketing of competitive products. Product marketers defined the target buyer for the watch and identified the key features the buyer would require. They met with distribution partners. The product marketing team developed pricing recommendations. They managed tradeoffs involving features, schedule, cost, and pricing. They also traveled to trade shows, customer briefings, and press visits to talk about the watch. The product marketing team was Apple's resident expert on the target market for the Apple watch and the marketing strategy for that product.

Prior to the product launch, product marketing worked with Apple's marketing communications team to develop the press releases, press strategy, and marketing materials for the launch and ongoing sales. Marketing communications is a corporate function that works across all products. They do not try to

become experts in each product but look to the product marketing team to bring that expertise. Instead, the marketing communications team are the experts in promotion across all of Apple's products.

Product marketing understands the right message for the Apple watch's target market. Let's say the target market is 30-40 years old, well-informed, with a higher level of disposable income; The marketing communications team knows a great way to reach that audience is by getting a writer at the *New York Times* to write a story about their message.

9.3 PRODUCT LIFE CYCLE

Learning Objectives

- Identify the stages of the product life cycle
- Explain the unique marketing requirements of each stage
- Identify challenges with using product lifecycle in marketing
- Discuss the product life cycle and its implications for marketing

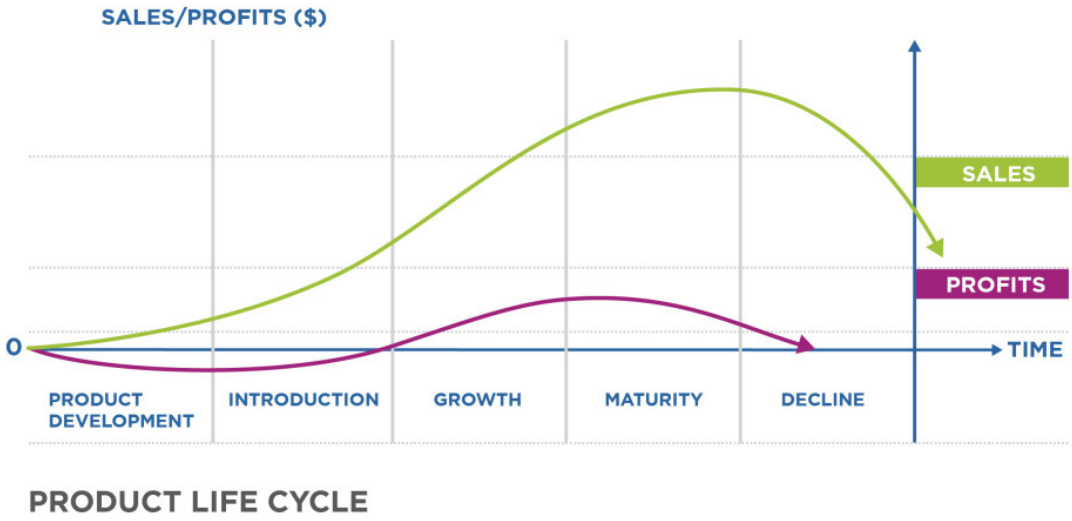
We just considered the case of Apple launching a new product (the Apple Watch). A particular set of marketing strategies and tactics was needed to define a product that did not exist, to create it, and introduce it to the world. If we were instead focused on marketing the iPhone, which was introduced in 2007, would the strategies and tactics be different? The answer is yes.

In this section, we will look at how marketing approaches for a product change over time. Nabisco introduced Wheat Thins crackers in 1947, yet the brand continues to be strong (it generated $344.8 million in revenue in 2015). The cracker brand even has more than 200,000 Twitter followers. In contrast, other products like children's toys and trendy clothing are designed for a single sales season and have to be quickly replaced with the next model, in order to draw sales. While the length of time is different, there are common patterns across the product life cycle that we will discuss in this section.

Learning Activities

- Reading: Stages of the Product Life Cycle
- Reading: Marketing through the Product Cycle
- Reading: Challenges in the Product Life Cycle
- Self Check: Product Life Cycle

A company has to be good at both developing new products and managing them in the face of changing tastes, technologies, and competition. Products generally go through a life cycle with predictable sales and profits. Marketers use the product life cycle to follow this progression and identify strategies to influence it. The product life cycle (PLC) starts with the product's development and introduction, then moves toward withdrawal or eventual demise. This progression is shown in the graph, below.



Source: Lumen Learning. Stages of the Product Life Cycle, in Module 10. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-stages-of-the-product-lifecycle/

The five stages of the PLC are:

1. Product development
2. Market introduction
3. Growth
4. Maturity
5. Decline

The table below shows the common characteristics of each stage.

Product Life Cycle Stages and Common Characteristics

Stage 1: Product Development	1. investment is made 2. sales have not begun 3. new product ideas are generated, operationalized, and tested
Stage 2: Market Introduction	1. costs are very high 2. slow sales volumes to start 3. little or no competition 4. demand has to be created 5. customers have to be prompted to try the product 6. makes little money at this stage
Stage 3: Growth	1. costs reduced due to economies of scale 2. sales volume increases significantly 3. profitability begins to rise 4. public awareness increases 5. competition begins to increase with a few new players in establishing market 6. increased competition leads to price decreases
Stage 4: Maturity	1. costs are lowered as a result of increased production volumes and experience curve effects 2. sales volume peaks and market saturation is reached 3. new competitors enter the market 4. prices tend to drop due to the proliferation of competing products 5. brand differentiation and feature diversification is emphasized to maintain or increase market share 6. profits decline
Stage 4: Decline	1. costs increase due to some loss of economies of scale 2. sales volume declines 3. prices and profitability diminish 4. profit becomes more a challenge of production/distribution efficiency than increased sales

Source: Lumen Learning. Stages of the Product Life Cycle, in Module 10. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-stages-of-the-product-lifecycle/

Using the Product Life Cycle

The product life cycle can be a useful tool in planning for the life of the product, but it has a number of limitations.

Not all products follow a smooth and predictable growth path. Some products are tied to specific business cycles or have seasonal factors that impact growth. For example, enrollment in higher education tracks closely with economic trends. When there is an economic downturn, more people lose jobs and enroll in college to improve their job prospects. When the economy improves and more people are fully employed, college enrollments drop. This does not necessarily mean that education is in decline, only that it is in a down cycle.

Furthermore, evidence suggests that the PLC framework holds true for industry segments but not necessarily for individual brands or projects, which are likely to experience greater variability.[1]

Of course, changes in other elements of the marketing mix can also affect the performance of the product during its life cycle. Change in the competitive situation during each of these stages may have a much greater impact on the marketing approach than the PLC itself. An effective promotional program or a dramatic lowering of price may improve the sales picture in the decline period, at least temporarily. Usually, the improvements brought about by non-product tactics are relatively short-lived, and basic alterations to product offerings provide longer benefits.

Whether one accepts the S-shaped curve as a valid sales pattern or as a pattern that holds only for some products (but not for others), the PLC concept can still be very useful; it offers a framework for dealing systematically with product marketing issues and activities. The marketer needs to be aware of the generalizations that apply to a given product as it moves through the various stages.

1. Mullor-Sebastian, Alicia. "The Product Life Cycle Theory: Empirical Evidence." Journal of International Business Studies 14.3 (1983): 95–105.

There are some common marketing considerations associated with each stage of the PLC. How marketers think about the marketing mix and the blend of promotional activities–also known as the promotion mix–should reflect a product's life-cycle stage and progress toward market adoption. These considerations cannot be used as a formula to guarantee success, but they can function as guidelines for thinking about budget, objectives, strategies, tactics, and potential opportunities and threats.

Keep in mind that we will discuss the new-product development process later in this module, so it is not covered here.

Market Introduction Stage

Think of the market introduction stage as the product launch. This phase of the PLC requires a significant marketing budget. The market is not yet aware of the product or its benefits. Introducing a product involves convincing consumers that they have a problem or need which the new offering can uniquely address. At its core, messaging should convey, "This product is a great idea! You want this!" Usually, a promotional budget is needed to create broad awareness and educate the market about the new product. To achieve these goals, often a product launch includes promotional elements such as a new website (or significant update to the existing site), a press release and press campaign, and a social media campaign.

There is also a need to invest in the development of the distribution channels and related marketing support. For a B2B product, this often requires training the sales force and developing sales tools and materials for direct and personal selling. In a B2C market, it might include training and incentivizing retail partners to stock and promote the product.

Pricing strategies in the introduction phase are generally set fairly high, as there are fewer competitors in the market. This is often offset by early discounts and promotional pricing.

It is worth noting that the launch will look different depending on how new the product is. If the product is a completely new innovation that the market has not seen before, then there is a need to both educate the market about the new offering and build awareness of it.

While we often think of an introduction or launch as a single event, this phase can last several years. Generally, a product moves out of the introduction stage when it begins to see rapid growth, though what counts as "rapid growth" varies significantly based on the product and the market.

Growth Stage

Once rapid growth begins, the product or industry has entered the growth stage. When a product category begins to demonstrate significant growth, the market usually responds: new competitors enter the market, and larger companies acquire high-growth companies and products.

These emerging competitive threats drive new marketing tactics. Marketers who have been seeking to build broad market awareness through the introduction phase must now differentiate their products from competitors, emphasizing unique features that appeal to target customers. The central thrust of market messaging and promotion during

this stage is "This brand is the best!" Pricing also becomes more competitive and must be adjusted to align with the differentiation strategy.

Often in the growth phase, the marketer must pay significant attention to distribution. With a growing number of customers seeking the product, more distribution channels are needed. Mass marketing and other promotional strategies to reach more customers and segments start to make sense for consumer-focused markets during the growth stage. In business-to-business markets, personal selling and sales promotions often help open doors to broader growth. Marketers often must develop and support new distribution channels to meet demand. Through the growth phase, distribution partners will become more experienced in selling the product and may require less support over time.

The primary challenges during the growth phase are to identify a differentiated position in the market that allows the product to capture a significant portion of the demand and to manage distribution to meet the demand.

Maturity Stage

When growth begins to plateau, the product has reached the maturity phase. In order to achieve strong business results through the maturity stage, the company must take advantage of economies of scale. This is usually a period in which marketers manage the budget carefully, often redirecting resources toward products that are earlier in their life cycle and have higher revenue potential.

At this stage, organizations are trying to extract as much value from an established product as they can, typically in a very competitive field. Marketing messages and promotions seek to remind customers about a great product, differentiate from competitors, and reinforce brand loyalty: "Remember why this brand is the best." As mentioned in the previous section, this late in the life cycle, promotional tactics, and pricing discounts are likely to provide only short-term benefits. Changes to the product have a better chance of yielding more sustained results.

In the maturity stage, marketers often focus on niche markets, using promotional strategies, messaging, and tactics designed to capture new shares in these markets. Since there is no new growth, the emphasis shifts from drawing new customers to the market to winning more of the existing market. The company may extend a product line, adding new models that have greater appeal to a smaller segment of the market.

Often, distribution partners will reduce their emphasis on mature products. A salesforce will shift its focus to new products with more growth potential. A retailer will reallocate shelf space. When this happens the manufacturer may need to take on a stronger role in driving demand.

We have repeatedly seen this tactic in the soft drink industry. As the market has matured, the number of different flavors of large brands like Coke and Pepsi has grown significantly. We will look at other product tactics to extend the growth phase and manage the maturity phase in the next section.

Decline Stage

Once a product or industry has entered the decline stage, the focus shifts almost entirely to eliminating costs. Little if any marketing spending goes into products in this life stage, because the marketing investment is better spent on other priorities. For goods, distributors will seek to eliminate inventory by cutting prices. For services, companies will reallocate staff to ensure that delivery costs are in check. Where possible, companies may initiate a planned obsolescence process. Commonly technology companies will announce to customers that they will not continue to support a product after a set obsolescence date.

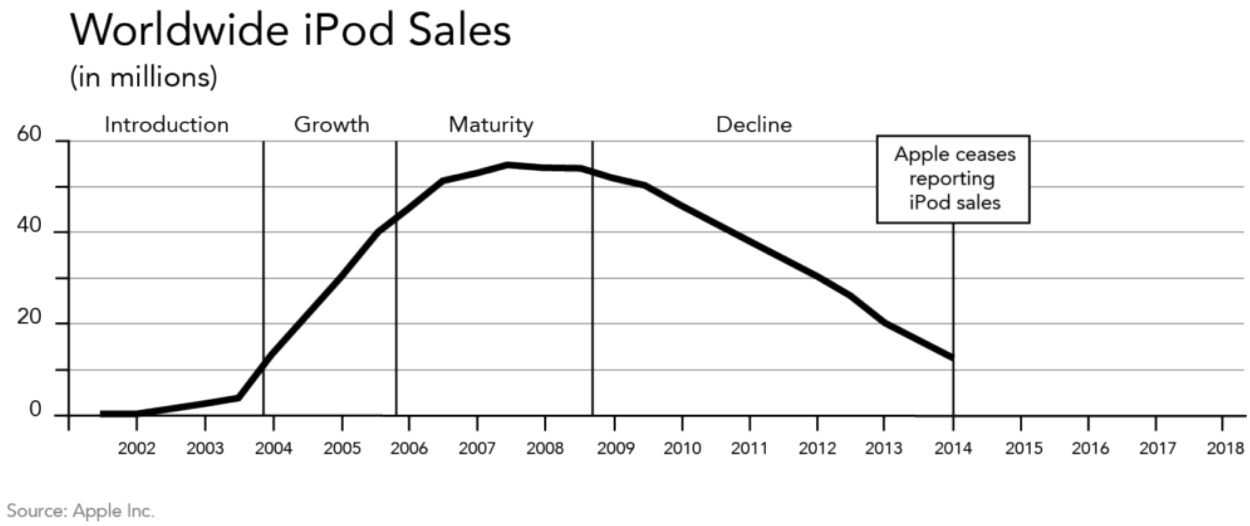
Often a primary focus for marketers during this stage is to transition customers to newer products that are earlier

in the product life cycle and have more favorable economics. Promotional activities and marketing communications, if any, typically focus on making this transition successful among brand-loyal segments who still want the old product. A typical theme of marketing activity is "This familiar brand is still here, but now there's something even better."

In theory, the product life cycle follows a predictable path that is easy to understand. This might suggest that the marketer just needs to gear up for the ride and be ready to adjust tactics as the product moves through its life cycle. On the contrary, a marketer's job is much less passive—instead, the marketer's goal is to influence the life cycle. An effective marketer tries to extend the growth stage in order to maximize revenue and profits and to extend the maturity stage in order to fund the development and introduction of new products.

Apple's iPod Life-Cycle Strategies

It is easier to understand the complexity of the product life cycle in the context of a real-life example. The total sales of Apple's iPod across all models follow a classic product life-cycle curve (see Figure 1[1] below).

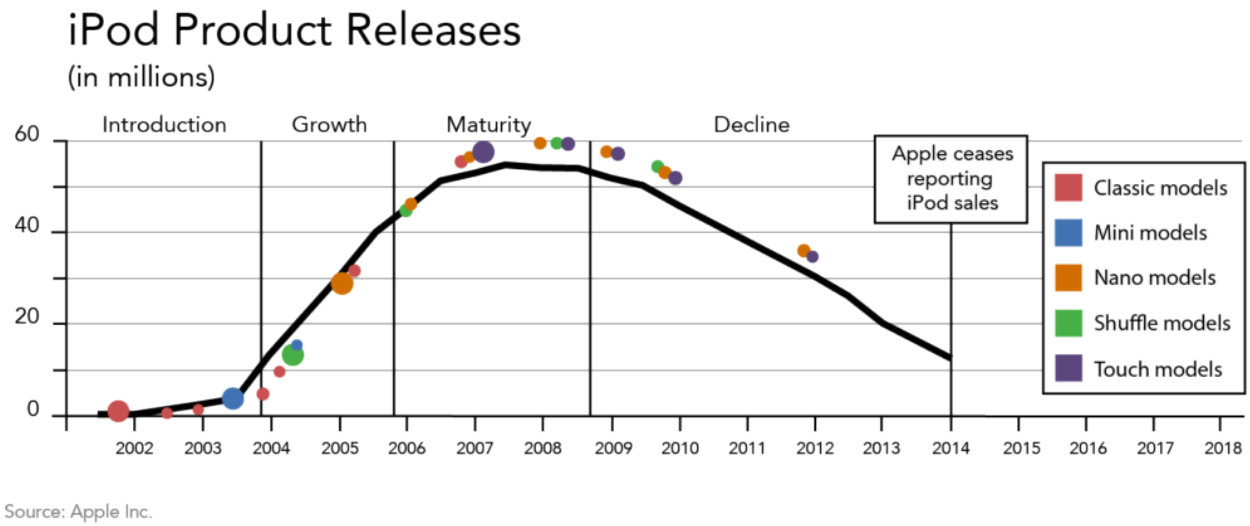


Worldwide iPod Sales. Data from Apple sales reporting. Source: Lumen Learning. Challenges in the Product Life Cycle, in Module 10. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-challenges-in-the-product-lifcycle/

Remember, these data include all models of iPods. One strategy that Apple employs to increase growth is to introduce new product models often. They used this strategy during the popularity of iPods; the new models had fairly similar functions but offered significantly different styling. This drove multiple sales to the same buyer. A buyer was less likely to say, "I already have an iPod," than to say, "I have an iPod Classic but I want an iPod Nano." From the initial launch in October 2002 through 2007, Apple introduced five major iPod models, with multiple versions of

1. Statista Research Department. (2014, October 7). Apple: iPod sales worldwide 2006-2014. Statista. https://www.statista.com/statistics/276307/global-apple-ipod-sales-since-fiscal-year-2006/

each.[2] The graph below shows the sequence of releases, with large dots representing the initial release of each new model. In September of 2008 and 2010, Apple released new versions of three different iPod models at the same time.



Apple iPod sales units 2002 – 2014. Source: Lumen Learning. Challenges in the Product Life Cycle, in Module 10. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-challenges-in-the-product-lifcycle/

Apple's rapid product releases kept it on the cutting edge of design and made it difficult for competitors to take market share during the product's growth stage. In September 2006, Apple CEO Steve Jobs reported that iPods held a 75.6 percent market share.

Throughout the growth period, Apple chose not to sell old versions of new devices. Once the company introduced the third generation of the iPod Nano, it stopped selling new second-generation iPod Nanos (though it did still offer refurbished versions of the older products). This allowed the company to quickly make the older versions obsolete, which drove new sales and reduced the ongoing support costs for older models.

When companies talk about "cannibalizing" their market, they mean that one product takes market share from another. In effect, one of the company's products is eating the other product's market share. Each new model of the iPod took market share from its predecessors, but collectively the iPod products dominated their market. The greatest cannibal of all in the Apple story is the iPhone, which was first released in June 2007.

The Smartphone Product Life Cycle

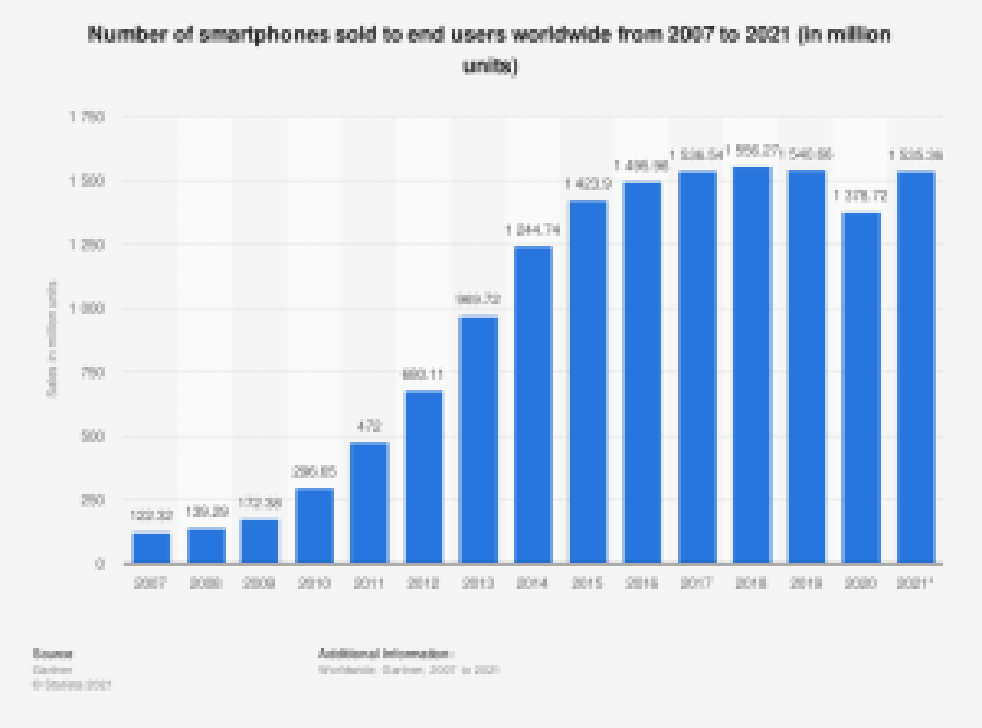
A smartphone is a mobile phone that performs many of the same functions as a computer. Prior to the introduction of the smartphone, most people used cell phones—which are now referred to as "feature phones." Feature phones provide phone and text capabilities but lack an operating system that can support the more advanced capabilities of today's smartphones.

Early smartphones saw broad adoption in Japan in 2001, but mass adoption of smartphones did not reach the

2. Richter, F. (2019, May 29). The slow goodbye of Apple's former cash cow. Statista. https://www.statista.com/chart/10469/apple-ipod-sales/

U.S. until business users fell in love with the Blackberry in 2003. Today, smartphones from a range of providers use primarily Google's Android operating system, Apple's iOS, or Microsoft Mobile.

Global sales of smartphones have grown rapidly, as shown in Figure 3[3] below.



Global smartphone sales to end-users. Source: Lumen Learning. Challenges in the Product Life Cycle, in Module 10. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-challenges-in-the-product-lifcycle/

Marketers are using many different strategies to drive the growth of smartphones, but perhaps the greatest impact has been the opening of the technology platform to allow other vendors to offer applications for them. Apple, Samsung, Microsoft, and other players have not tried to imagine every possible use for a smartphone and build it themselves. Instead, they have created the technology infrastructure and an open marketplace for applications. Programmers can develop applications that can run on any phone, and smartphone owners can select and buy the apps that are of interest.

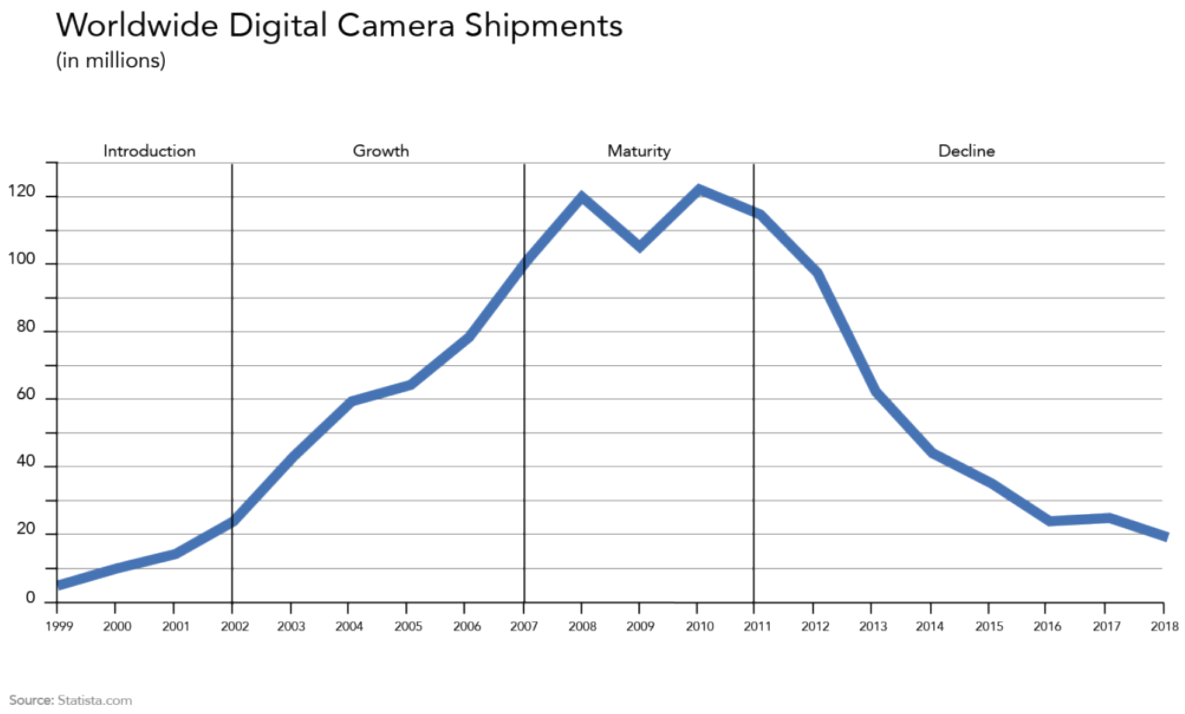
Through this broad range of applications, the smartphone brings together a number of different functions on one device. Before the first release of the smartphone, many people carried a feature phone to answer calls and a personal digital assistant to manage email and calendars. With the smartphone, these two functions came together, and as the device has matured, it has taken over many other tasks that were formerly performed on a separate device.

The adoption of smartphones has had a tremendous impact on the product life cycle of a range of other products. When Apple introduced the iPhone in 2007, the company was cannibalizing its market for iPods. Today, most Apple customers play their media on a phone rather than on a separate media-dedicated device. There are still sales of iPods,

3. O'Dea, S. (2021, March 31). Global smartphone sales to end-users 2007-2021. Statista. https://www.statista.com/statistics/263437/global-smartphone-sales-to-end-users-since-2007/

but the company, in effect, initiated the decline of the market with its own introduction of the iPhone—a market in which it had more than 75 percent market share.

The markets for digital cameras (especially the low-end models) and personal navigation systems (GPS systems) have also been impacted. The product life-cycle graph for digital camera purchases, shown in Figure 4,[4] below, shows a striking resemblance to that of the iPod.



CIPA companies: shipments of digital cameras 1999-2018. Source: Lumen Learning. Challenges in the Product Life Cycle, in Module 10. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-challenges-in-the-product-lifcycle/

While in the past, smartphone cameras have lagged behind digital cameras in terms of features and performance, they provided two distinct benefits:

1. The smartphone adds the camera to an existing device that the user already carries with him
2. The smartphone makes it easier to use and share photos through other applications on the phone

With the technological improvements made to smartphone cameras in recent years, those two distinct benefits have become amplified. Smartphones are a dominant factor in the product life cycle of digital cameras, iPods, and a number of other products.

4. Statista Research Department. (2020, February 19). CIPA companies: shipments of digital cameras 1999-2018. Statista. https://www.statista.com/statistics/264337/cipa-companies-shipments-of-digital-cameras-since-1999/

Lessons from the Smartphone Life Cycle

This example shows some benefits of considering the product life cycle in marketing strategies but also some significant limitations.

The product life cycle is not forward-looking. At any point on the graph, a marketer can see what has already occurred but not what is ahead. In planning a product strategy, it is important to understand the past sales performance of the product and the industry broadly, but the role of marketing is to shape future performance, and the product life cycle doesn't offer many tools to inform that proactive work.

The product life cycle can focus a marketer on a defined set of products and competitors in the current market—but miss broad trends or innovations in adjacent markets and products. A marketer looking for the next feature to add to a digital camera to extend the maturity phase could easily miss the impact that the smartphone would have on the digital camera market. We can learn from Apple's description of a product marketing manager position in its own company: One of the product marketing manager's responsibilities is to "closely follow emerging technology, consumer, and societal trends and make recommendations for how products will leverage or fit into those emerging trends." This broad view is critical to successful marketing.

Finally, this example demonstrates the importance of creating a diverse set of products. When the iPod lost market share to the iPhone, Apple won. Other companies that have lost market on account of the transition to smartphones—Nikon and Canon in cameras, Garmin in navigation devices, etc.—have not fared as well.

9.4 PRODUCT PORTFOLIO MANAGEMENT

Learning Objectives

- Define the product portfolio and explain its use in marketing
- Identify marketing strategies and tactics used to achieve portfolio objectives
- Explain why new products are crucial to an organization's success
- Explain product portfolio management and how it relates to the organization's marketing strategy and tactics

Our last example showed the importance of marketing a diverse set of products and using new products to gain a strategic advantage. Defining and managing this collection of products is called product portfolio management.

Think of an artist's portfolio. The artist will use their portfolio to display a range of work. They will try to select works that showcase their strengths in different areas so that someone reviewing their portfolio can see the range of different things they can do well.

Similarly, a product portfolio requires diversity in order to be effective. In this module, we will talk about what the product portfolio is and how a marketer can use the power of a product portfolio to achieve marketing objectives.

Learning Activities

- Reading: The Product Portfolio
- Reading: Achieving Portfolio Objectives
- Reading: New Products in the Portfolio
- Self Check: Product Portfolio Management

Throughout this course, we have discussed a number of ways that organizations market products successfully. How does an organization decide which products to offer? When should a company add new products, and when should it discontinue existing ones? Product portfolio management answers these questions.

Organizing for Effective Product Marketing

Before we dive into the product portfolio it is important to understand how products are organized in most businesses.

Typically, organizations group like products into product lines, and then group lines of business targeting a common set of customers into something called strategic business units (SBUs).

A product line is a group of products marketed by an organization to one general market. The products have some characteristics, customers, and uses in common, and may also share technologies, distribution channels, prices, services, etc. There are often product lines within product lines.[1]

Before we take a look at an example, let's review some definitions within product organizations:

- A **product** is a bundle of attributes (features, functions, benefits, and uses) that a person receives in an exchange. In essence, the term "product" refers to anything offered by a firm to provide customer satisfaction—tangible or intangible. Thus, a product may be an idea (recycling), a physical good (a pair of jeans), a service (banking), or any combination of the three.
  - An example of a product is Tylenol pain reliever.
- A **product line** is a group of products marketed by an organization to one general market. The products have some characteristics, customers, and/or uses in common, and may also share technologies, distribution channels, prices, services, etc. There are often product lines within product lines.
  - An example of a product line is the full range of Tylenol products.
- A **strategic business unit** or **SBU** is a self-contained planning unit for which discrete business strategies can be developed.
  - An example of a strategic business unit is consumer health care products.

Johnson & Johnson

Johnson & Johnson has hundreds of products. They sell baby shampoo to new parents and knee systems to surgeons who perform knee replacement surgeries. Imagine trying to understand all of the different products and their target buyers. It would be impossible to span all of those products well. At the same

1. American Marketing Association.(n.d.). *Definitions of marketing*. https://www.ama.org/the-definition-of-marketing-what-is-marketing/

time, what if your organization owns a single product—say, Johnson & Johnson's Neutrogena face wash? A different organization owns Johnson & Johnson's Aveeno face wash. It would be easy to optimize for a single product, rather than trying to achieve company objectives across all the products.

And as for a product line inside a product line? Johnson & Johnson has a product line of skin and hair care products. Within that product line, there are a number of brands that have a set of complementary products. Returning to our previous example, the Neutrogena product line includes a complete set of dermatologist-recommended skin and hair care products. The Aveeno product line includes a complete set of natural skincare products. Neutrogena products target buyers who place greater trust doctors, and Aveeno targets buyers who trust natural products, but both are part of the Johnson & Johnson skin and hair care product line.

The skin and hair care product line is part of a larger strategic business unit for Johnson & Johnson: the consumer health care products business unit. This SBU includes:

- baby care
- skin and hair care
- wound care and topicals
- oral health care
- over-the-counter medicines
- vision care
- nutritionals

Think about this list. There are differences in the target buyer for each product line, but drugstores like Shoppers Drug Mart and Lawtons Drugs carry all of these products, and they are, of course, all targeting consumers.

Johnson & Johnson's other SBUs include medical devices and prescription products.

Managing the Product Portfolio

The goal of product portfolio management is to ensure that the company's investment in products meets objectives. In order to do this, portfolio management must understand the needs and contributions of the products and allocate resources across product lines and SBUs to optimize their market performance.

Analyzing SBU Performance

Should Johnson & Johnson invest equally in all of its SBUs and product lines? The table below shows Johnson & Johnson's 2014 financial results.[2]

2. Johnson & Johnson. (2015, January 20). *Johnson & Johnson reports 2014 fourth-quarter and full-year results.* https://www.jnj.com/media-center/press-releases/johnson-johnson-reports-2014-fourth-quarter-and-full-year-results

Johnson & Johnson's 2014 Financial Results

SBU	2014 revenue	Revenue growth from 2013	% profit	Research and Development spending
Consumer health care	$14.5 billion	1%	13.4%	$629 million
Medical devices	$27.5 billion	1.6%	28.9%	$1.7 billion
Prescription products	$32.3 billion	16.5%	36.2%	$6.2 billion

Source: Lumen Learning. The Product Portfolio, in Module 10. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-the-product-portfolio/

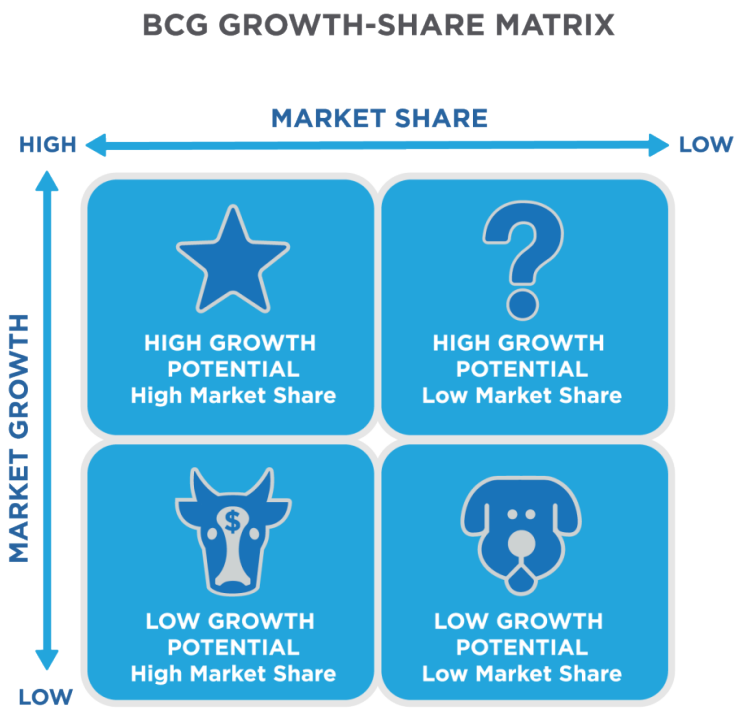
You can see that Johnson & Johnson is spending ten times more on research and development (R&D) for prescription products than for consumer health care products. Given the higher growth rates and profit margins for prescription products, this looks like a good decision.

Within the SBUs, managers also make important decisions about where to invest. For example, in 2013, the lowest-growth product line in medical devices was diagnostics, which decreased by 8.9 percent from 2012 to 2013. In 2014, Johnson & Johnson sold a major diagnostic product from that product line to another company for $4 billion. This eliminated a product that was not contributing to the portfolio objectives, and it generated new capital that could be invested in higher-growth product lines.

The examples here demonstrate a simple review of SBU performance, but companies can also perform a deep analysis of an SBU and product performance in order to understand past performance and identify future growth opportunities.

Analyzing Market Opportunities

Beyond the internal performance data, portfolio analysis considers broader market factors. In the marketing planning module, we discussed the Boston Consulting Group's growth-share matrix, which is a tool to used analyze the product portfolio. You'll recall that this model considers the attractiveness of the market by studying the growth potential in the market, and it includes company performance by showing the product's current market share. These are both important factors to consider in determining future growth opportunities.



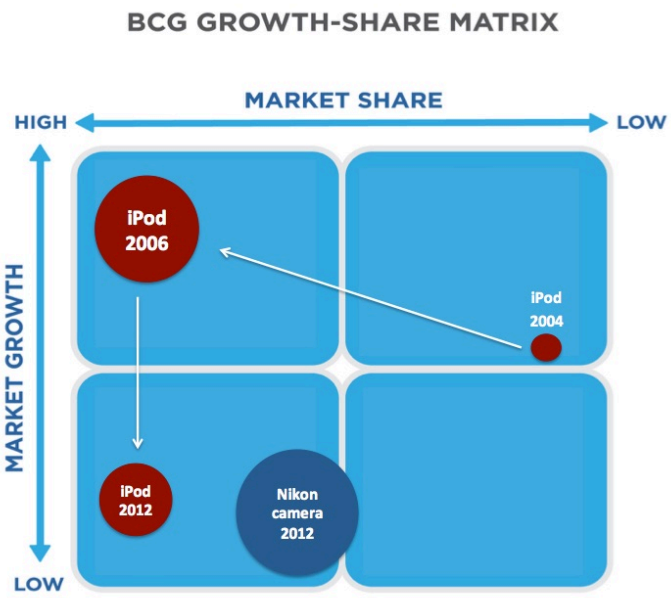
Source: Lumen Learning. The Product Portfolio, in Module 10. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-the-product-portfolio/

In its annual report, Johnson & Johnson shared the following information with investors about its largest prescription-drug product line:

> Immunology products achieved sales of $10.2 billion in 2014, representing an increase of 10.9 percent as compared to the prior year. The increased sales of STELARA® (ustekinumab) and SIMPONI® /SIMPONI ARIA® (golimumab) were primarily due to market growth and market share gains. REMICADE® (infliximab) growth was primarily due to market growth.

A very simplistic analysis of this information suggests that Stelara and Simponi are stars (high market growth and high market share) while Remicade is a question mark. It is benefiting from market growth but is not achieving gains in market share.

Knowing about the product life cycle is also important to understanding market growth. During the introduction phase, the market growth rate is low, and the longer-term potential is unknown. As the market moves into the growth phase, it moves up the market growth axis and creates opportunities for products that are gaining market share and becoming stars. Those that don't perform well in gaining market share will become question marks. As the market moves into maturity and decline, the market growth moves back down the axis and products will become either cash cows or dogs.



Source: Lumen Learning. The Product Portfolio, in Module 10. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-the-product-portfolio/

If we add the data from the iPod product life cycle to the growth-share matrix, as shown above, we can see how Apple's products might be analyzed. In the growth-share matrix, the size of the product sphere is determined by the total sales. Obviously, this diagram is not perfectly sized, but it gives a picture of the way in which product life cycle can be used to inform product portfolio management.

In our discussion of the product life cycle, we saw that competition generally increases as more competitors are drawn to high-growth markets. As more brands enter the marketplace and lock into a particular share of the market, it becomes more difficult to win and hold buyers. Apart from these competitive factors, other market factors can shift, too. For example:

- Changes in consumer tastes
- Changes in the size and characteristics of particular market segments
- Changes in availability or cost of raw materials and other production or marketing components

Internally, a company might have a proliferation of small-share brands that were introduced to address market opportunities but never saw significant growth. This can reduce efficiencies in production, marketing, and servicing for existing brands.

In product portfolio management there is an assumption that a company has an existing set of products. The number may be small or large, but each brand, product, and product line has an impact on the external market view of the others and on the internal resources available to the others. For this reason, portfolio management requires marketers to consider each product individually but also understand the way the products fit together collectively.

In order to optimize the product portfolio, marketers may change the marketing mix for a product, change a product line, delete products, or introduce new products.

Marketing Mix Strategies

When a product is introduced, it's not locked down forever. Marketers continually gather market data about products so they can refine the product and its position in the marketplace.

Product Modification

It is normal for a product to be changed several times during its life. Certainly, a product should be equal or superior to those of principal competitors. If a change can provide superior satisfaction and win more initial buyers and switchers from other brands, then a change is probably warranted.

However, the decision to make a significant product change introduces risk and cannot be approached in a haphazard manner. First, the marketer must answer the question "What specific attributes of the product and competing products are perceived to be most important by the target customer?" Factors such as quality, features, price, services, design, packaging, and warranty may all be determinants. Each change introduces the risk that it may not align with customer needs. For example, a dramatic increase in product quality might drive the price too high for the existing target consumer, or it might cause them to perceive the product differently and unfavorably. Similarly, the removal of a particular product feature might be the one characteristic that's regarded as most important by a market segment.

The product modification decision can only be made if the marketer has a strong understanding of the target customer. What new information is the marketer learning about the buyer persona? Perhaps additional market research

is needed to understand the improvements buyers want, to evaluate the market reception of competitors' products, and evaluate improvements that have been developed within the company. In determining product improvements, sales teams and distributors can provide valuable information. Sales is likely to hear objections from target customers or learn the reasons why they are choosing not to buy. Distributors often deal with a range of products in a category and provide helpful insights into what is tipping the purchase process toward a competitor's product.

Repositioning

In an earlier module, we discussed product positioning, which requires finding the right marketing mix for a product in order to distinguish it from competitors and give it a unique position in the market. As competitors' offerings and customer preferences change, marketing may need to make a significant change to the marketing mix to reposition the product. This involves changing the market's perceptions of a product or brand so that the product or brand can compete more effectively in its present market or in other market segments.

For example, since its heyday in the late seventies and early eighties, Cadillac sales have dropped by more than 50 percent as the Cadillac customer base aged. In order to restore sales, General Motors is trying to redefine the Cadillac product and brand for a new generation of consumers. This is a dramatic example in which a substantial change is needed. Product repositioning can also involve a very subtle change, such as updating the packaging or tweaking the pricing approach, but it is an important way to shift perceptions as market factors change.

Product Line Decisions

A product line can contain one product or hundreds of products. The number of products in a product line refers to its *depth*, while the number of separate product lines owned by a company is the product line *width*.

There are two overarching strategies that deal with product line coverage. With a full-line strategy, the company will attempt to carry every conceivable product needed and wanted by the target customer. Few full-line manufacturers attempt to provide items for every conceivable market niche. Instead, they provide many products for a particular market segment.

Companies that employ a limited-line strategy will carry selected items. Limited-line manufacturers will add an item if the demand is great enough, but they make that decision based on the market opportunity for the product rather than on a desire to meet all customer needs with their product line.

Line Extension Strategies

A line extension strategy involves adding new products under an already established and well-known brand name. The objective is to serve different customer needs or market segments while taking advantage of the widespread name recognition of the original brand.[1]

When Frito-Lay added Doritos Flamin' Hot to its Doritos line, that was an example line-extension strategy.[2] Frito-Lay is able to take advantage of a strong brand with existing shelf space and add a new product that has an appeal to

1. Business Dictionary. (n.d.). Line extension. http://www.businessdictionary.com/definition/line-extension.html#ixzz3wK7lJ700

2. Doritos. (n.d.). Doritos product screenshot. https://www.doritos.com/products/doritos-flamin-hot-nacho

shoppers seeking a spicier snack than the traditional nacho cheese flavor. Similarly, Clinique provides high-end skin-care products and has extended its line to provide anti-acne products and anti-aging products.

Generally, line extension strategies are lower risk because they introduce a product change but are able to take advantage of other proven elements of the marketing mix. Still, there is a risk of cannibalizing the market for existing products or, if the product is not well received, damaging the brand. Also, there a danger in overextending the product line by offering so many products that consumers can't find unique value, and company resources get stretched across many, low-volume products.

Line Filling Strategies

Line-filling strategies involve increasing the number of products in an existing product line to take advantage of marketplace gaps and to reduce competition. Many businesses use line filling to round out an already well-established product line and to help increase the market success of new related products.[3]

Before considering such a strategy several key questions should be answered:

- Can the new product support itself?
- Will it cannibalize existing products?
- Will existing outlets be willing to stock it?
- Will competitors fill the gap if we do not?
- What will happen if we do not act?

Assuming that a company decides to fill out the product line further, there are several ways of going about it. The following three are most common:

1. **Product proliferation**: the introduction of new varieties of the initial product or products that are similar (e.g., a ketchup manufacturer introduces hickory-flavored and pizza-flavored barbecue sauces and a special hot dog sauce).
2. **Brand extension**: strong brand preference allows the company to introduce the related product under the brand umbrella (e.g. Jell-O introduces pie filling and diet desserts under the Jell-O brand name).
3. **Private branding**: producing and distributing a related product under the brand of a distributor or other producers (e.g., Firestone producing a less expensive tire for Costco).

In addition to the demand from consumers or pressure from competitors, there are other legitimate reasons to engage in these tactics. First, the additional products may have a greater appeal and serve a greater customer base than did the original product. Second, the additional product or brand can create excitement both for the manufacturer and distributor. Third, shelf space taken by the new product means it cannot be used by competitors. Finally, the danger of the original product becoming outmoded is hedged. Yet, there is a serious risk that must be considered as well: unless there are markets for the proliferations that will expand the brand's share, the newer forms will cannibalize the original product and depress profits.

3. Business Dictionary. (n.d.). Line filling. http://www.businessdictionary.com/definition/line-filling.html#ixzz3wK9onLtn

Product Deletion

Eventually, a product reaches the end of its life. There are several reasons for deleting a mature product. First, when a product is losing money, it is a prime deletion candidate. In regard to this indication, it is important to make sure that the loss is truly attributable to the product. If the product appears not to be profitable when it is actually covering costs of other products, then deleting the product could negatively impact other products in the portfolio.

Second, there are times when a company with a long product line can benefit if the weakest of these products is dropped. This thinning of the line is referred to as *product-line simplification*. Product overpopulation spreads a company's productive, financial, and marketing resources very thin. Moreover, an excess of products in the line, some of which serve overlapping markets, not only creates internal competition among the company's own products but also creates confusion in the minds of consumers. Consequently, a company may apply several criteria to all its products and delete those that are faring worst.

A third reason for deleting a product is that problem products absorb too much management attention. Many of the costs incurred by weak products are indirect: management time, inventory costs, promotion expenses, a decline of company reputation, and so forth.

Missed-opportunity costs constitute the final reason for product deletion. Even if a mature product is making a profit contribution and its indirect cost consequences are recognized and considered justifiable, the company might still be better off without the product. Each product requires focus and resources that are not available to grow other products or create new ones.

Factors Influencing the Pace of Product Development

New-product introductions are an important component of the product portfolio. This has always been the case, but there have been a number of changes since 2000 that have increased the pace of new-product development and, with it, the importance of new products in the portfolio.

The internet has fundamentally changed the way that we think about new products. We could devote an entire course to exploring and substantiating this statement, but for our purposes here, we'll concentrate on the following notable developments:

1. The internet increases our ability to find new products. In the past, if a local store carried version 3.0 of any product, a buyer could consider the attributes of version 3.0 and make a purchase decision. Today, the buyer may enter the store, but they're more likely to know the improvements incorporated in version 4.0 and the new features expected in version 5.0.
2. The internet supports real-time comparisons of competitive products, including their features and users' experience with the products.
3. The internet enables new products and services that have changed expectations for service delivery.
4. TheiInternet enables customers to recommend new products and experiences to others.

In addition to these internet-related developments, there are many new tools, technologies, and methodologies that are speeding the pace of new product development. For example, software development frameworks make it possible to launch, test, and refine a new Web-based service in a fraction of the time that it required in the past. A new retail offering that, in the past, would have required a team of programmers to bring to market can be launched on Etsy today in less than an hour.

New products have never been faster and easier to launch.

New Products Bring Risk

Still, new products are risky. In the strategic opportunity matrix section, we reviewed a number of strategies that include new and existing products. Why is it important to consider whether the product and/or market is new in this strategic context? Current products in current markets are known, and new products and new markets are not known.

In this section, we have discussed a couple of examples of new products in the context of company strategies. Apple launched five major iPod models in six years, and then followed them with a total of twenty different versions of those models. Perhaps most interesting, Apple launched three different iPod models—the Classic, the Mini, and the Shuffle—before it saw significant sales growth.

The Johnson & Johnson medical practices unit launched more than fifty new products between 2012 and 2014 but has seen only a 0.5 percent increase in sales during that period. With the 2014 sale of a diagnostics product that was showing declining sales numbers, the SBU is better poised to show growth in its 2015 sales numbers.

Source: Lumen Learning. New Products in the Portfolio, in Module 10. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-new-products-in-the-portfolio/

Both of these examples show that new products do not guarantee new sales, and they certainly don't guarantee immediate success.

Role of New Products in the Portfolio

New products bring greater risk to the product portfolio but also greater potential reward. The goal of portfolio management is to balance risk in order to create strong performance today and in the future. Though new products can drain resources in the short run, they are positioned to generate new sales in the long run—and to take off when other products are entering stages of maturity and decline.

The early investment in multiple new iPod models that were not growing quickly created a future base for the growth of the iPod. That, in turn, generated returns and positioned the Apple brand for the development and release of the iPhone. Johnson & Johnson's medical products division has aggressively invested in new products that can spur growth and divested products with declining sales. Still, in the first three quarters of 2015, overall growth for the division is down. It is not yet clear whether the new products will generate enough growth to replace the growth of their predecessors.[1]

1. Johnson & Johnson. (2015, January 20). *Johnson & Johnson reports 2014 fourth-quarter and full-year results.* https://www.jnj.com/media-center/press-releases/johnson-johnson-reports-2014-fourth-quarter-and-full-year-results

9.5 NEW PRODUCT DEVELOPMENT PROCESS

Learning Objectives

- Explain how new products are planned
- Identify approaches to generate new product ideas
- Identify methods to evaluate new product ideas
- Explain the process to create and commercialize new products
- Describe the new-product development process

We have considered the role of new products throughout this module. It is important to introduce new products in order to have a balanced portfolio containing products at the various stages of the product life cycle. We have not yet focused on ways of creating successful new products.

In this module, we will discuss a standard, somewhat fixed new-product development process. The logic behind this rather rigid process is that it requires a great deal of discipline to create new products. It's expensive to launch a successful new product—but it's far more expensive to launch unsuccessful products. For these reasons, organizations invest a lot in the creation and refinement of their new product development processes. It helps them raise the odds that they'll be successful.

Consider the following dramatic product failures that, in hindsight, should have been screened out much earlier in the product development process.

In 1998 Frito-Lay introduced WOW! chips. These snack chips contained significantly less fat and fewer calories than other snack foods thanks to the fat substitute Olestra. Initially, the product performed well, generating $347 million in 1998 and making WOW! the best-selling potato chip brand that year. The success was short-lived, though. Olestra had an unpleasant side-effect: soon customers complained of cramping, incontinence, and diarrhea—in some cases requiring hospitalization—after eating the chips. Frito-Lay's parent company, PepsiCo, spent $35 million on an advertising campaign to turn things around, but sales plummeted nonetheless.[1]

In 2011 Hewlett Packard launched a product designed to go head-to-head with Apple's iPad. The product boasted a higher number of performance features than the iPad, but it had none of the "cool factor" that drew customers to Apple. MarketWatch reported, "Despite large-scale press events and promotions, the HP TouchPad was a colossal failure and was discontinued almost immediately. As a result of the TouchPad's failure, the company wrote

1. Market Watch. (2015, April 11). 12 worst American product flops. http://www.marketwatch.com/story/12-worst-american-product-flops-2015-04-10

off $885 million in assets and incurred an additional $755 million in costs to wind down its webOS operations, ending all work on the TouchPad's failed operating system."

To repeat: developing new products creates opportunity and risk.

Learning Activities

- Reading: Generating and Screening Ideas
- Reading: Developing New Products
- Reading: Commercializing New Products
- Video: Target Product Design
- Self Check: New Product Development Process

Introduction

There are probably as many varieties of new-product development systems as there are types of companies, but most of them share the same basic steps or stages—they are just executed in different ways. Below, we have divided the process into eight stages, grouped into three phases; subsequent readings will discuss these phases in greater detail. Many of the activities are performed repeatedly throughout the process, but they become more concrete as the product idea is refined and additional data are gathered. For example, at each stage of the process the product team is asking, "Is this a viable product concept?" but the answers change as the product is refined and more market perspectives can be added to the evaluation.

New-Product Development Process: Phases and Stages

Phase I: Generating and Screening Ideas	**Phase II: Developing New Products**	**Phase III: Commercializing New Products**
Stage 1: Generating New Product Ideas	Stage 4: Business Case Analysis	Stage 6: Test Marketing
Stage 2: Screening Product Ideas	Stage 5: Technical and Marketing Development	Stage 7: Launch
Stage 3: Concept Development and Testing		Stage 8: Evaluation

Source: Lumen Learning. Overview of the New-Product Development Process, in Module 10. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-the-product-development-process/

Stage 1: Generating New Product Ideas

Generating new product ideas is a creative task that requires a particular way of thinking. Coming up with ideas is easy, but generating *good* ideas is another story. Companies use a range of internal and external sources to identify new product ideas. A SWOT analysis might suggest strengths in existing products that could be the basis for new products or market opportunities. Research might identify market and customer trends. A competitive analysis might expose a hole in the company's product portfolio. Customer focus groups or the sales team might identify unmet customer needs. Many amazing products are also the result of lucky mistakes—product experiments that don't meet the intended goal but have an unintended and interesting application. For example, 3M scientist Dr. Spencer Silver invented Post-It Notes in a failed experiment to create a super-strong adhesive.[1]

1. Post-it note. (n.d.). in Wikipedia. https://en.wikipedia.org/wiki/Post-it_note

The key to the idea generation stage is to explore possibilities, knowing that most will not result in products that go to market.

Stage 2: Screening Product Ideas

The second stage of the product development process is idea screening. This is the first of many screening points. At this early stage, much is *not* known about the product and its market opportunity. Still, product ideas that do not meet the organization's objectives should be rejected at this stage. If a poor product idea is allowed to pass the screening stage, it wastes effort and money in later stages until it is abandoned. Even more serious is the possibility of screening out a worthwhile idea and missing a significant market opportunity. For this reason, this early screening stage allows many ideas to move forward that may not eventually go to market.

At this early stage, product ideas may simply be screened through some sort of internal rating process. Employees might rate the product ideas according to a set of criteria, for example; those with low scores are dropped and only the highest-ranked products move forward.

Stage 3: Concept Development and Testing

Today, it is increasingly common for companies to run some small concept tests in a real marketing setting. The *product concept* is a synthesis or a description of a product idea that reflects the core element of the proposed product. Marketing tries to have the most accurate and detailed product concept possible in order to get accurate reactions from target buyers. Those reactions can then be used to inform the final product, the marketing mix, and the business analysis.

New tools for technology and product development are available that support the rapid development of prototypes that can be tested with potential buyers. When concept testing can include an actual product prototype, the early test results are much more reliable. Concept testing helps companies avoid investing in bad ideas and at the same time helps them catch and keep outstanding product ideas.

Stage 4: Business Case Analysis

Before companies make a significant investment in a product's development, they need to be sure that it will bring a sufficient return.

The company seeks to answer such questions as the following:

1. What is the market opportunity for this product?
2. What are the costs to bring the product to market?
3. What are the costs through the stages of the product life cycle?
4. Where does the product fit in the product portfolio and how will it impact existing product sales?
5. How does this product impact the brand?
6. How does this product impact other corporate objectives such as social responsibility?

The marketing budget and costs are one element of the business analysis, but the full scope of the analysis includes all revenues, costs, and other business impacts of the product.

Stage 5: Technical and Marketing Development

A product that has passed the screening and business analysis stages is ready for technical and marketing development. Technical development processes vary greatly according to the type of product. For a product with a complex manufacturing process, there is a lab phase to create specifications and an equally complex phase to develop the manufacturing process. For a service offering, there may be new processes requiring new employee skills or the delivery of new equipment. These are only two of many possible examples, but in every case, the company must define both what the product is and how it will be delivered to many buyers.

While the technical development is underway, the marketing department is testing the early product with target customers to find the best possible marketing mix. Ideally, marketing uses product prototypes or early production models to understand and capture customer responses and to identify how best to present the product to the market. Through this process, product marketing must prepare a complete marketing plan—one that starts with a statement of objectives and ends with a coherent picture of product distribution, promotion, and pricing integrated into a plan of marketing action.

Stage 6: Test Marketing and Validation

Test marketing is the final stage before commercialization; the objective is to test all the variables in the marketing plan including elements of the product. Test marketing represents an actual launching of the total marketing program. However, it is done on a limited basis.

Initial product testing and test marketing are not the same. Product testing is totally initiated by the producer: they select the sample of people, provide the consumer with the test product, and offer the consumer some sort of incentive to participate.

Test marketing, on the other hand, is distinguished by the fact that the test group *represents* the full market, the consumer must make a purchase decision and pay for the product, and the test product must compete with the existing products in the actual marketing environment. For these and other reasons, a market test is an accurate simulation of the broader market and serves as a method for reducing risk. It should enhance the new product's probability of success and allow for final adjustment in the marketing mix before the product is introduced on a large scale.

Stage 7: Launch

Finally, the product arrives at the commercial launch stage. The marketing mix comes together to introduce the product to the market. This stage marks the beginning of the product life cycle.

Stage 8: Evaluation

The launch does not in any way signal the end of the marketing role for the product. On the contrary, after launch, the marketer finally has real market data about how the product performs in the wild, outside the test environment.

These market data initiate a new cycle of idea generation about improvements and adjustments that can be made to all elements of the marketing mix.

Introduction

The first phase of the new product development process is creating a viable product concept that can move through the development phase. This phase includes the following:

- Stage 1: Generating New Product Ideas
- Stage 2: Screening Product Ideas
- Stage 3: Concept Development and Testing

This early phase of the process differs from later phases in several ways. First, it requires immense creativity. Each of the later phases focuses on screening out ideas, but this is a generative stage whose goal is the production of new ideas. Second, the early phase of the process is difficult to plan and manage. On what day will the innovative product idea emerge? That can't be planned or scheduled.

The Fuzzy Front End

Researcher Peter Koen refers to this first phase as the Fuzzy Front End (FFE) of the product development process. In his work, he has identified a number of characteristics that differentiate the FFE from later phases of product development. These are shown in the table below.

Difference Between the Fuzzy Front End and the New-Product Development Process[1]

1. Koen, P.A., Ajamian, G., Boyce, S.D., Clamen, A., Fisher, E.S., Fountoulakis, S.G., Johnson, A., Puri, P.S., & Seibert, R. (2002). *1 Fuzzy front end: Effective methods, tools, and techniques.* https://api.semanticscholar.org/CorpusID:10643155

Fuzzy Front End vs. New-Product Development Traits

	Fuzzy Front End (FFE)	New-Product Development (NPD)
Nature of Work	Experimental, often chaotic. "Eureka" moments.	Can schedule work—but not invention. Disciplined and goal-oriented with a project plan.
Commercialization Date	Unpredictable or uncertain.	High degree of certainty.
Funding	Variable—in the beginning phases many projects may be "bootlegged," while others will need funding to proceed.	Budgeted.
Revenue Expectations	Often uncertain, with a great deal of speculation.	Predictable, with increasing certainty, analysis, and documentation as the product release date gets closer.
Activity	Individuals and team conducting research to minimize risk and optimize potential.	Multifunction product and/or process development team.
Measures of Progress	Strengthened concepts.	Milestone achievement.

Source: Lumen Learning. Generating and Screening Ideas, in Module 10, Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-generating-product-ideas/

As the product concept moves through the stages of the product development process, everything will become more refined and more certain. The timeline, the budget, and the performance expectations will all become more concrete, but in the early phase, it is important to allow for the ambiguity that supports creativity.

Creating Successful Product Concepts

How can businesses influence the success of the new business idea? Koen suggests a number of factors that play a role: the corporation's organizational capabilities, customer and competitor influences, the outside world's influences, and the depth and strength of enabling sciences and technology.[2]

Organizational Capabilities

You may have noticed that some companies are able to launch one dominant product after another. Other companies struggle to create any products that compete well or have one amazing product and then disappear. Companies develop processes to manage new products, hire leaders to manage new-product development, and develop a culture based on their institutional values and norms around new products. All of these factors tip the scale toward success or failure. If leaders ask employees to take risks with cutting-edge product ideas but fire those whose ideas are not successful, they will not draw out risky ideas that might lead to the greatest success. Also, the best ideas are often

2. Ibid.

refinements of and enhancements to other ideas. If individual performance is rewarded over team success, there is less likelihood of idea sharing and collaboration.

Customer and Competitor Influences

Innovation by a competitor can spur new ideas and possibilities across the industry. Similarly, customers seeking innovation who are willing to share ideas with their vendors can accelerate the generation of new product ideas and bring a voice of reality that increases the chance of success.

Outside World Influences

There are a range of influences outside of the company that affects the ease with which new ideas can be developed. Government regulations can positively or negatively influence new-product and idea generation. Society, culture, and the economic environment can create a rich environment for new ideas.

Enabling Sciences and Technologies

Enabling technologies refer to those technologies that can be used to develop new products. When employees have access to technologies that expose them to new ideas, or technologies that allow rapid development and iteration of new ideas, this can be instrumental in sparking the development of new products. Often companies invest in technology components that can be reused across multiple products. Such technology has the effect of both speeding the new-product development process and facilitating the addition of refinements and enhancements to existing products.

Evaluating Product Concepts

The goal of the initial product development process is to generate ideas, actively evaluate the ideas, and create a viable product concept. In the past, it was difficult to get a clear reading on how products might perform until late in the product development process. That is less true today. Consider the following examples of innovations that accelerate market feedback on new products:

Kickstarter is a crowd-funding platform that allows entrepreneurs to pitch a new product concept to potential funders. The entrepreneur receives immediate feedback on the idea from a broad market and, if it generates enough support, funding to bring the product to market.

Etsy offers an e-commerce platform from which entrepreneurs can sell products on the Internet without having to develop their own e-commerce websites to present products or process payments.

3-D printers create physical products from digital files. These products can be tested and refined with users much more quickly and economically than traditionally manufactured prototypes and products.

On a larger scale, there are a number of Web application frameworks that allow programmers to quickly develop Internet applications, significantly speeding the pace at which software companies can prototype and develop new features.

Once a product concept has been successfully evaluated, it moves to the next phase of development.

The second phase of the new-product development process focuses on the actual development of the new product. This phase includes the following:

- Stage 4: Business Case Analysis
- Stage 5: Development

Making the Business Case

The business case is often the most challenging screening process in the new-product development process. It is not uncommon for a product team to get excited about an idea, get positive feedback on the concept from target buyers, and then fail to make the numbers work in the business case. Usually, the business case review results in a "go, no-go" decision for the product concept.

The business case doesn't only need to answer the question "Can this product make money?" It's also trying to answer a more complicated question: "Will the product provide the greatest total return out of all the potential strategies we could pursue?" In addition, the business case is looking at the expected performance of the product—financial and otherwise—over the entire product life cycle. For these reasons, the business case takes into account a broad range of factors.

One common tool for presenting a summary of the business case is called the "business model canvas" (see Figure 1, below). The canvas doesn't cover all of the analysis that must be done, but it does provide a nice structure for identifying the different components that are important to the success of the product or business.

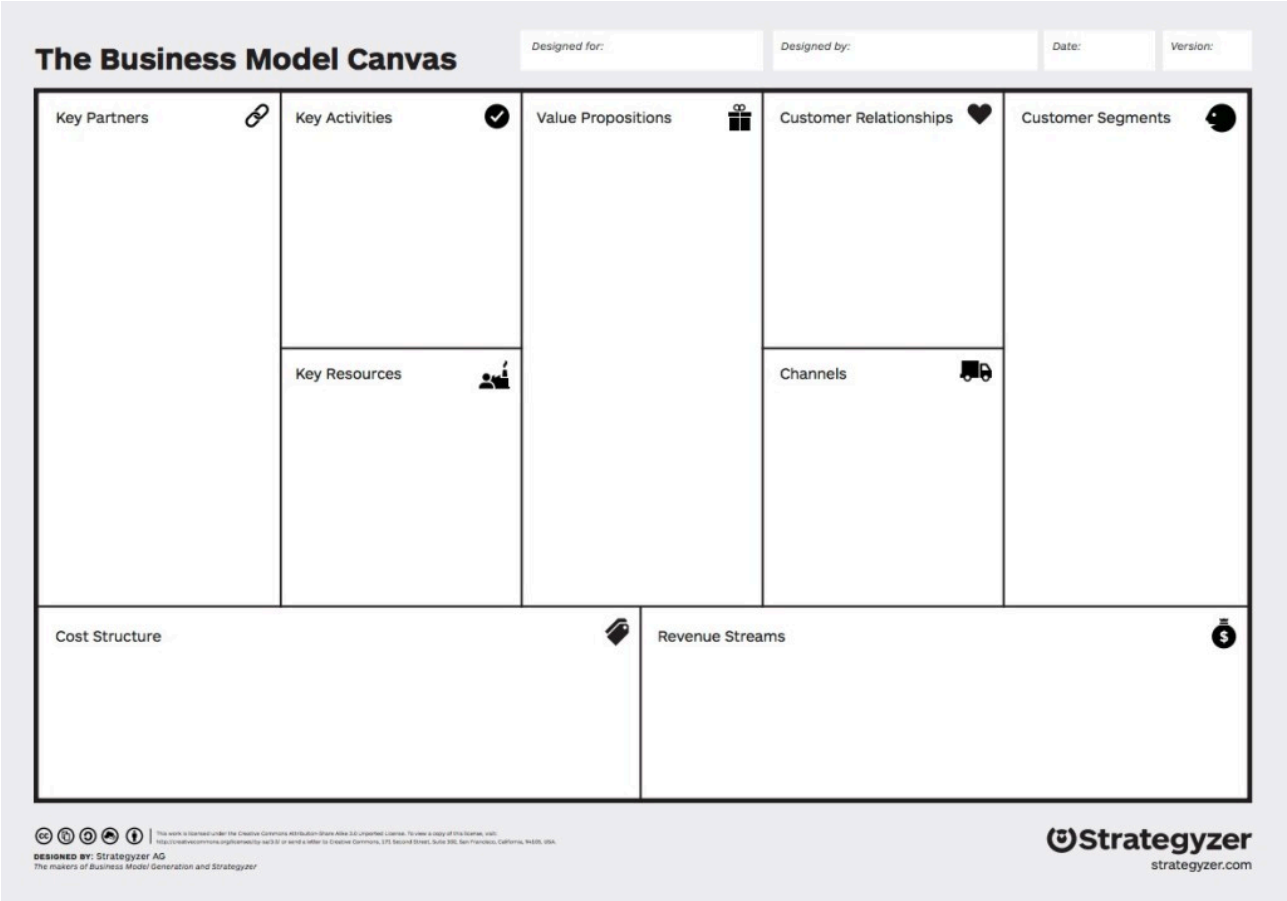


Figure 1. The Business Model Canvas. Source: Lumen Learning. Developing New Products, in Module 10. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-evaluating-new-product-ideas/

You will notice that the center of the canvas focuses on the value proposition of the product, whereas the lower segments specify the costs to create value and the revenue earned by delivering the value. In the analysis of the business case, the key questions are the following:

1. Does the product provide sufficient unique value to the target customer?
2. Can that be achieved at a cost that supports the value?
3. Does that value appeal to a large enough target market to generate sufficient revenue?

If the product development team can demonstrate satisfactory answers to these questions, without introducing other objections, then the product will move into development.

Developing the Product

Regardless of the type of product—a tangible good, a service, a business-to-business product—someone needs to define the marketing requirements for the product. This is the role of a product marketing manager. Product marketing isn't usually tasked with the technical specifications for the product but is focused on specifying the needs of the target buyer. Product marketing addresses the following question: "What problem does this product solve for the target buyer?" The answers to this question are typically presented in a marketing requirements document, which

also includes a full buyer persona. (Recall that a buyer persona describes the needs, experiences, feelings, and preferences of a specific buyer.)

Defining Market Requirements

Let's say your new product is a packaged meal item, and you're the product marketer. Your marketing requirements document would explain who the buyer is, what she needs, and which particular features of the product will best address her needs. Your buyer persona is a woman named Aleisha. She has three kids and works part-time as a nurse. She feels stretched between her job and her kids' busy schedule and the demands of keeping up the house. She needs to be able to come home from work and get dinner on the table in twenty minutes, yet not feel like she's cutting corners. It's important to her to provide her family with a healthy home-cooked meal.

This description of target-buyer Aleisha suggests and guides a set of product requirements that will inform the design and development of the product. Whether the product is a food item, a fashion accessory, a software program, or a banking service, defining the marketing requirements based on the buyer persona will increase the chances that the final product meets the market need.

Defining Product Requirements

The marketing requirements become an input to the product team to define the technical product requirements for the product. In the packaged meal example, someone will need to decide whether there are visible solids in Aleisha's sauce and how much ground oregano should be added. Those will become product requirements that drive the production process.

With more technical products or products that include a complex manufacturing process, the translation from marketing requirements to technical requirements can be a daunting task. For example, in the manufacturing of semiconductors that power computers and electronics, there is a significant interplay between the marketing requirements, the technical requirements, and the manufacturing process. The factory cannot deliver products that exceed their technical capabilities regardless of the market's desires. In that case, the limits of the manufacturing process are set, and the role of product marketing is to identify the most attractive products given a fixed manufacturing capability.

In all cases, the product team seeks a tight match between the market need and the product that is designed, developed, and delivered.

Creating the Go-to-Market Plan

The marketing requirements drive the technical product requirements that will be used to develop the product, but they have a second purpose, too. The market requirements are the major input to the marketing plan that will be used during the product launch.

In answering what problem a product solves for the target buyer, we gain information about the messaging and promotion strategy. By understanding the alternatives that the target buyer might select and the unique value that our product provides, we can begin to understand the pricing dynamics. In knowing how she wants to buy the product we have options to analyze for the distribution strategy. The initial marketing mix for the product launch is driven by the information in the marketing requirements document.

The final phase of the new-product development process focuses on commercializing the new product. This phase includes:

- Stage 6: Test Marketing
- Stage 7: Launch
- Stage 8: Evaluation

At last, the product is ready to go. It has survived the development process and is now, you hope, on the way to commercial success. How can it be guided to reach that marketing success?

The different stages in this phase include a common set of activities performed on an increasingly larger scale. In all three stages, the marketer is implementing, evaluating, and improving the marketing plan, which includes the full marketing mix.

Source: Lumen Learning. Commercializing New Products, in Module 10. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-taking-new-products-to-market/

Test Marketing

The goal of test marketing is to improve the success of the product launch. The marketer will launch the marketing plan to a smaller subset of the market, quickly analyze how the plan can be improved, refine the plan, and then launch to the full market.

Test marketing provides a wonderful opportunity to get feedback from buyers in a realistic buying situation in which they experience the full marketing mix—but it's a challenge to do it right. Because of the special expertise needed to conduct test markets, and the associated expenses, many large manufacturers employ independent marketing research agencies that specialize in test marketing. Among the challenging decisions are the following:

- *Duration of testing*: the product should be tested long enough to account for market factors to even out, but a long test cycle delays the broad launch and may diminish the impact of the product announcement.
- *Selection of test markets*: the test market should reflect the norms for the new product in such areas as advertising, competition, distribution system, and product usage.
- *Sample size determination*: the number of markets and tests must account for the different variables in the market while allowing for the fact that each test market adds cost to the launch budget and time to the product release cycle.

The test data drives the evaluation and refinement of the marketing plan. Even after all the test results are in, adjust-

ments to the product and other elements of the marketing mix may still be made. Additional testing may be required, or the product may be canceled.

The Launch

The product launch is truly the beginning of the implementation of a sustained marketing plan—a plan that will be analyzed, evaluated, and adjusted throughout the product life cycle. That said, there are certain marketing techniques that figure more prominently during the launch phase.

Press Strategies

Often companies issue press releases about new products in order to increase visibility through earned media. The press release can be sent to targeted press outlets, posted on the company Web site, sent as an information message to customers, and distributed to industry influencers. The goal of the press strategy is to build broad visibility for the product, backed up by the credibility of the media outlet.

Price Discounts

Companies will sometimes offer a price discount during a product launch. When we cover pricing in more detail in the next module, we will discuss when this can be an effective strategy.

Channel Partner Incentives

If the company depends on a partner to sell or distribute the pricing, it might choose to offer pricing discounts and incentives to the distribution partner. A new product carries some risk, and an incentive at launch can encourage channel partners that might be reluctant to add the new product or to sell it aggressively.

Evaluation

Though we are identifying "evaluation" here as the final stage of the development process, it should be clear that product evaluation is a recurring activity that begins with the idea-screening stage. Careful, objective evaluation of the product at every stage leads to better investment decisions and better products. The difference in this final stage of the process is that the marketer has the benefit of significant market data for the evaluation, which can help improve the marketing plan going forward. It is only at this stage—after the product launch—when the marketer can see which buyers purchase the product, how competitors respond, and how the new product interacts with the company's other products in the marketplace.

Target's design products include many of the success factors we've discussed in this module. As you watch the following video, see if you can identify which aspects of Target's approach and design process are key to their success. What role does the corporate culture play?

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=476#oembed-1

You can view the transcript for "Target Product Design and Development" (opens in new window).

9.6 CHALLENGES FOR NEW PRODUCTS

Learning Objectives

- Explain common challenges of new products
- Identify approaches to improving the success of new products
- Identify the challenges associated with marketing a new product successfully

Have you ever waited in line to be among the first to buy a new product when it was released?

Are you careful, maybe pragmatic, about trying new products?

Do you continue to use products that your friends and family believe are outdated?

Your answers to these questions matter to the marketers who are targeting you. We have looked at the life cycle of products and the process for developing new products. As a buyer, you have specific attitudes and behaviors when it comes to new products—or at least toward groups of products. These behaviors are both intriguing and vexing to marketers.

Learning Activities

- Reading: Diffusion of Innovation
- Reading: Improved Success in Product Development
- Self Check: Challenges for New Products

Just as the product life cycle has a typical bell-shaped pattern, there is a predictable—and similar-shaped—pattern of buying, or adoption, when it comes to new products. This customer adoption pattern is important because it can be used to inform marketing decisions.

Diffusion-of-Innovation Theory

Common sense suggests that not everyone will buy a new product at the same time. Some will rush out and buy first or try to get an early version of a product before it is widely available. Others will wait until many people have adopted a product before they reluctantly consider the purchase. As early as 1962, Everett Rogers recognized this phenomenon and described it as the "diffusion of innovation." He developed a theory to support it, explaining how, why, and at what rate an innovation will be adopted by participants in a social system. The theory divides adopters into different groups with shared characteristics, as shown in Figure 1, below:

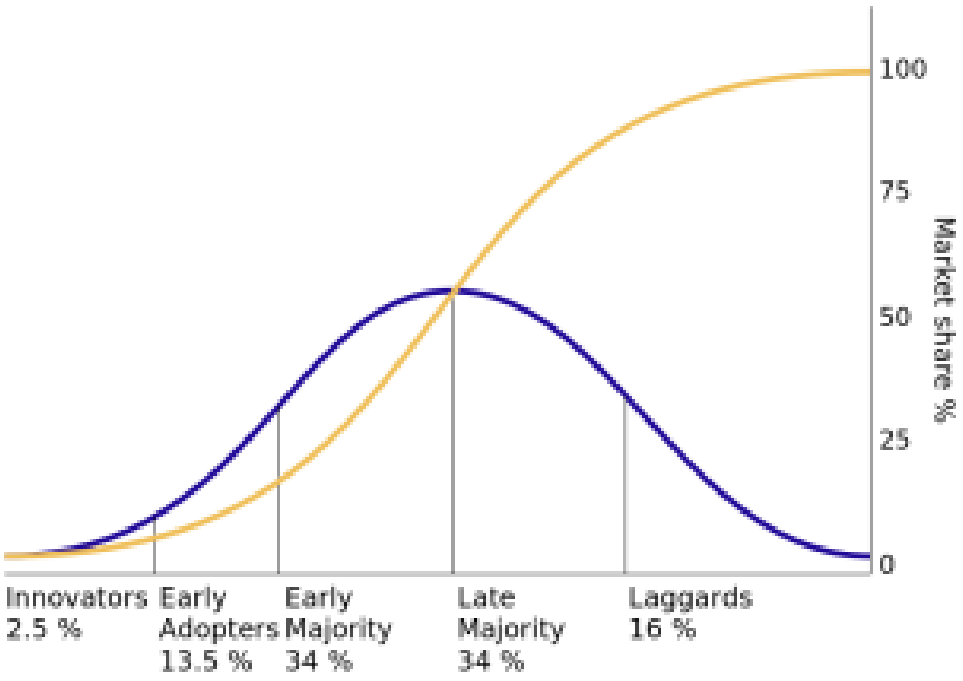


Figure 1. Diffusion of Ideas. Source: Lumen Learning. Diffusion of Innovation, in Module 10. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-common-challenges-with-new-products/

The purple line on the graph indicates the percentage of the market that will buy a new product in *each phase* of product adoption. You can see from the graph that there is a small number of innovators, and a large number of early majority and late majority adopters. The yellow line on the graph shows the *cumulative* market share gained. In other words, the yellow line shows the total of the market share gained at the end of each phase, adding together the share from each prior phase.

Consumer Adoption Patterns

Innovators

Innovators are willing to take risks and are viewed by their peers as risk-takers. Innovators' risk tolerance enables them to adopt technologies that may ultimately fail, and they typically need sufficient financial resources to absorb these failures. Innovators tend to be very tuned into market leaders and the latest developments. To stay on top of current trends, they research products thoroughly using "in-the-know" sources such as expert blogs and product forums. Innovators are willing to pay a premium to be the first to try a new offering. Although this is the smallest segment in the diffusion-of-innovation theory, if innovators approve of a product, it marks an important gateway toward generating broader market acceptance.

Early Adopters

Early adopters have a high degree of opinion leadership among the adopter categories. Others look to this group to road-test and validate new products. As a significantly larger segment than innovators, early adopters are influential in shaping the opinions of later adopters. Therefore it is essential to achieve high customer satisfaction with this segment. Early adopters are more aggressive than later adopters, but they are judicious about their adoption choices. Early adopters don't look to be first at any cost, so they actively consider risk as part of the decision-making process. To illustrate, classic innovator behavior is to camp out overnight for the first showing of a new film, while early adopters read the reviews before deciding to see a film during the opening weekend.

Early Majority

Early majority adopters are more risk-averse than early adopters, so they wait for the wrinkles to be ironed out of new products before making a purchase. Early majority buyers tend to seek a lot of opinion and validation to guide their choices: they want to know that the early adopters and innovators have had a good experience before they invest. The window of early majority purchasing spans a longer period of time than the innovators' and early adopters.' Early majority buyers generally have more choices in terms of quality, features, and price because competition tends to peak when this group's buying cycle is in full swing. Like the early adopters, the early majority's opinions and decisions carry weight across the adopter categories.

Late Majority

Late majority adopters arrive after the "average" participant has embraced innovation. These individuals approach innovations reluctantly and with more skepticism than their predecessors. Late majority buyers are less likely to conduct extensive research about a purchase; instead, they tend simply to follow the buying behaviors of earlier-adopting segments.

Laggards

Laggards are the last to adopt an innovation. Often they are older and less educated than buyers in the other diffusion of innovation segments. Laggards typically have little or no opinion leadership and are averse to things they perceive

as "agents of change." Laggards tend to be focused on traditions. They are less connected socially, less involved with media, and harder to reach than the other groups.

Marketing an Innovation

Figure 1, above, shows a tipping point between the early majority and the late majority adopters. A tipping point is the point at which small changes are enough to cause a larger, more substantial change. The challenge for the marketer is to encourage the adoption of a product by early adopters and the early majority in order to reach that tipping point. Once these groups are on board, their momentum helps drive the product from the introduction stage of the life cycle into the growth stage.

Often marketers are tempted to focus their marketing efforts on the innovators. Innovators are game to try the product, which makes them an easier target than risk-averse consumers. In all but the most unusual, extreme cases, though, this will be a flawed strategy. The early adopters are actually in a much better position to influence the broad opinion of the product and to draw in the early majority. By the same token, aggressive marketing to laggards is unlikely to influence their pattern of adoption.

Understanding the patterns of adoption and adjusting the marketing strategy to address changes in adoption profiles is a challenge that marketers of new products need to understand and face.

One common cause of failure in the developing and marketing of new products is something called "product-market fit." Marc Andreesen, a technology entrepreneur and investor who has written about this, explains that product-market fit is simply *being in a good market with a product that can satisfy that market.*[1]

New technologies enhance the ability of companies to bring products to market quickly, but speed doesn't guarantee the right product-market fit. Without a good fit, companies risk launching a product that doesn't satisfy the market need.

A couple of innovations in new-product development strategies have had a significant impact on the way companies improve their chances of a successful fit.

User-Centered Design

Have you ever found a product that seems like it was made for you? You don't need to read the instructions. You don't have to learn how to use it. It seems natural to conform to your preferences and needs. The creation of such products is the goal of user-centered design.

User-centered design is a product development process in which the needs, wants, and limitations of end-users are given extensive attention at each stage of the design process. The chief difference from other product design approaches is that user-centered design tries to optimize the product around how users can, want, or need to use the product, rather than forcing the users to change their behavior to accommodate the product.

In a user-centered design process, the product team tries to understand user needs and define the requirements to meet those needs—but that's true of any good product-design process. User-centered design requires the designers to test their assumptions about user behavior and requirements in real-world settings with actual users during every step of the product development process—all the way from product concept and requirements to production and prelaunch. This recursive approach gives designers a steady stream of information that confirms the original requirements or suggests needed modifications. The frequent user testing encourages designers to think of typical or recurring user challenges as design requirements rather than problems that ought to be solved by the user.

For example, most educational institutions want to make the course selection and registration process easier for students. Portland State University decided to employ a user-centered design process when it set out to improve its own system. After a number of student interviews, the university created a prototype of the new process. When they were ready to test the concept, the university registrar went to the homes of students and watched them try to work through the course selection and registration processes on their home computers. The idea was to gain information about students' real experience of these processes in the places where they actually happen—and make design decisions accordingly. The home-setting experiment revealed a number of unanticipated design flaws and new requirements that hadn't come to light during interviews or simulations run in the campus computer lab. As a result, by prioritizing the user perspective, the university was able to design a much more effective solution.

Today, there is a significant focus on the User Experience (UX) in product design and many new terms to speak to this evolving process. In this video, Rachel Krause a User Experience Specialist with Nielsen Norman Group

1. Andreesen,M. (2007, June 25). Product/market fit. Stanford University. http://web.stanford.edu/class/ee204/ProductMarketFit.html

explains how her team incorporates storytelling, UX in agile, design thinking, scaling design, and UX leadership to develop new products and take into account the user experience.

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The Lean Startup Methodology

The "lean startup methodology" has been described by Eric Ries as an approach that helps new companies achieve product-market fit during their earliest product launch. The methodology is based on the assumption that it's essential to get real market data from product users as early as possible in the design process. The challenge, as you have learned, is that marketers don't see substantial, realistic market data (which are used to refine the marketing mix) until well after the product launch. The lean startup methodology tries to get around this problem by shortening the time frame needed to capture the data.

Ries proposes that rather than launching a fully developed, full-featured product, companies should begin with a very limited launch of what he calls "the minimum viable product." The minimum viable product (MVP) is the most streamlined product that any group of users will accept. According to this approach, the company develops and launches its MPV, captures market and user data, and quickly uses that information to make adjustments for its next minimal feature set. In each cycle of development, the product team learns from the actual market and user data and uses them to refine the product and stay aligned with company goals.[2]

The lean startup methodology is used by organizations of all sizes, but it's particularly well suited to small companies that can't afford the risk of a single product-fit issue and to software-based companies that can launch an online offering to a user base without needing complex manufacturing processes and distribution channels.

Neither of these approaches will address all new-product challenges or guarantee success, but both are considered important innovations in the new-product design process since they improve the odds of new-product success and reduce the cost of product failure.

2. Ries, E. (n.d.). The lean startup methodology. http://theleanstartup.com/principles

9.7 PUTTING IT TOGETHER: PRODUCT MARKETING

In this module, we've covered a wide range of topics related to the role of the product in the marketing mix. As you've seen, creating clear value for the customer, understanding the product life cycle, and creating a balanced product portfolio are all interrelated aspects of thinking about the customer and market behavior.

At the beginning of this module, we discussed the success of Uber's ride-sharing product. Let's take another look at it from the viewpoint of the new-product development process.

Recall that the business model canvas is a tool companies use to layout the business case for a new product concept. Figure 1, below, is an example of how Uber's business model canvas might have looked when the founders cooked up the idea for their ride-sharing offering. Given what we know now about the product's success, it's pretty clear that Uber hit its mark: the company identified and delivered on a value proposition with incredible product-market fit.

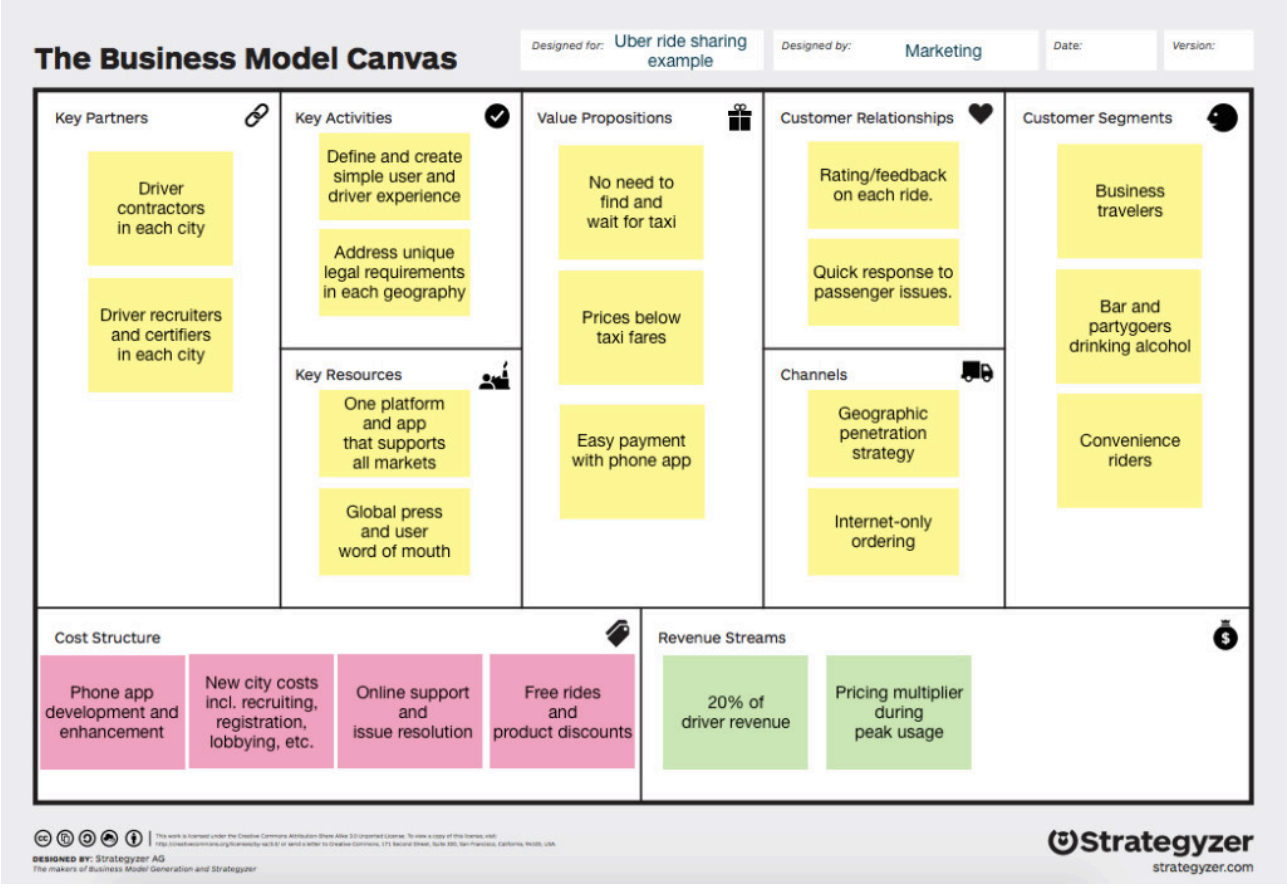

Figure 1. Uber Business Model Canvas. Source: Lumen Learning. Putting It Together: Product Marketing, in Module 10. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/putting-it-together-product-marketing/

The successful definition, development, and delivery of the product reduced risk in other elements of the marketing mix, though Uber's affordable and predictable pricing is an important part of the value proposition. The product

has been successful and is continuing to grow in the market. In 2018 the company reported revenue growth of 43 percent year over year.[1]

Uber's market may be reaching maturity. In terms of the adoption cycle, Uber has moved far past the innovators and early adopters and likely past most of the early majority. Now it needs to attract late majority customers and fight to hold on to its existing customers in a very competitive marketplace. As you think about Uber's product and market, will laggards ever use the service? Should the company try to influence them?

Chris Nicholson, from FutureAdvisor, explains the impact of this trend on Uber and its competitor, Lyft: "They both feel that the only way to maintain their growth rate in the U.S. is to grab each other's market share." As the market reaches maturity, competition is getting more fierce. The companies have to fight to keep their customers and try to lure customers from competitors if they want to sustain their growth.[2]

In using more of the tools and frameworks that we have discussed in this module, you are better able to understand a product's success, identify risks to its future success, and use effective marketing to influence the course of that product's success.

1. Zaveri, P. & Bosa, D. (2019, February 15). Uber's growth slowed dramatically in 2018. CNBC. https://www.cnbc.com/2019/02/15/uber-2018-financial-results.html

2. Griswold, A. (2014, September 11).How Uber and Lyft stack up in the United States. *Slate*. http://www.slate.com/blogs/moneybox/2014/09/11/uber_vs_lyft_futureadvisor_study_compares_revenue_users_growth_at_the_companies.html

CHAPTER 10: PLACE: DISTRIBUTION CHANNELS

Learning Objectives

- Understand why distribution channels matter
- Explain channels of distribution and why organizations use them
- Explain how channels affect the marketing of products and services
- Describe types of retailers and explain how they are used as a channel of distribution
- Explain how integrated supply chain management supports an effective distribution strategy

10.1 WHY IT MATTERS: PLACE: DISTRIBUTION CHANNELS

Why evaluate how to use distribution channels to market an organization's products and services effectively?

More Than Just Another P

Of the elements in the marketing mix, product and price are perhaps the easiest to understand. We see products all around us, and we understand that we need to pay a specific price to buy them. Promotion is sometimes a little more difficult to grasp, but if we begin with the concept of advertising and then develop a more complete view of promotion from that, promotion is also fairly easy to understand.

"Place," on the other hand, is not so straightforward. In fact, using the word "place" can be misleading. If I were to say, "We are going to talk about place related to groceries," you would likely think about where you buy your groceries—as in, which store and which location. In this module, though, we want to discuss the process of determining where you want to find particular groceries and how to get those groceries to that place in the way that best aligns with your preferences.

While it inconveniently begins with the letter *D* rather than *P*, *distribution* is a more accurate description of this function. Distribution brings the *products* that you want to the *place* where you want to buy them, at a cost that supports the customer and company *price* requirements.

How do your groceries get to the right place at the right cost? To explore this question, let's look at two high-end USA-based grocery stores that use very different methods to manage this process: Whole Foods and Trader Joe's.

Whole Foods' Approach to Distribution

The USA-based retail grocery chain, Whole Foods' motto—*Whole Foods, Whole People, Whole Planet*—emphasizes a vision that reaches beyond food retailing. The company has chosen a strategy of sourcing locally wherever possible. This, in turn, has driven the strategy of how Whole Foods fills its shelves—the distribution strategy. The video below explains how the company sources products.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=542#oembed-1

You can view the transcript for "Forager Elly Truesdell Whole Foods Market" here (opens in new window).

In order to support local sourcing, store managers are empowered to make purchasing decisions for each store, independently of the regional offices. As a result, it is possible for Whole Foods to buy potatoes from a local farmer who would never dream of selling his produce to a large grocery chain. Essentially, Whole Foods is differentiated

because all products are sourced locally. The stores operate under minimal governance and are given maximum freedom to source a product mix that is appropriate for their location. Whole Foods stores operate according to the premise that they need these freedoms to meet the unique buying needs of their local customers. The only governing rule put in place by the corporate office is that stores must not stock products with artificial flavors, preservatives, colours, sweeteners, or hydrogenated oils. A downside to this local purchasing policy is that consistency is compromised across the chain. Every retail location carries a variety of products that distinguishes it from other stores in the same chain.

Not surprisingly, it is difficult to achieve economies of scale with this model. Higher distribution costs lead to higher prices, which makes it important for Whole Foods to target customers with high incomes. To ensure ample access to their target consumer segments, Whole Foods opens stores in communities with a large number of college-educated residents with no fewer than two hundred thousand people within a twenty-minute drive.

Trader Joe's Approach to Distribution

Trader Joe's is another USA-based chain of grocery stores headquartered in Monrovia, California. The mission of Trader Joe's is to give customers the best food and beverage values they can find anywhere and to provide them with the information required to make informed buying decisions. The company strives to provide these with a dedication to the highest quality of customer satisfaction delivered with a sense of warmth, friendliness, fun, individual pride, and company spirit.

At the core of Trader Joe's "way" is a focus on cost control, simplicity, and fun. These company objectives are woven throughout each aspect of the business. Trader Joe's aims to create a truly unique customer experience, offering high-quality gourmet foods at a low cost in a fun environment that keeps customers coming back for more.

Trader Joe's manages its distribution networks by minimizing the number of hands that touch the product, thereby reducing costs and making products quickly available to their customers. The company orders directly from the manufacturer. The manufacturer, in turn, is responsible for bringing the product to a Trader Joe's distribution center. At the distribution center, trucks leave on daily resupply trips to local stores. Because the stores are relatively small, there is little room for excess inventory, and orders from distribution centers need to be incredibly precise.

This quick and efficient distribution process is directly responsible for helping the company identify where to locate new retail stores. Trader Joe's will only enter markets where the region has a distribution infrastructure that allows it to efficiently resupply products to stores. They have not opened stores in Florida or Texas—both large, lucrative markets—because the distribution networks are not yet strong enough to support their strategy.[1] [2]

Trader Joe's strategy of implementing a low-cost and efficient distribution network has contributed to the democratization of gourmet foods by making them more readily available to customers at all income levels.

You can see that the distribution strategy for each company has an effect on where they open stores, how they price their products, which customers will buy, and who will have access to gourmet foods.

In this module, you'll learn more about distribution strategies and their role in the marketing mix.

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1. Lewis, Len. The Trader Joe's Adventure: Turning a Unique Approach to Business to a Retail and Cultural Phenomenon. 2005

2. http://www.traderjoes.com/our-story/timeline

10.2 USING CHANNELS OF DISTRIBUTION

Learning Objectives

- Explain what channels of distribution are and why organizations use them

Monster Energy drink is a dominant player in the growing market for drinks enhanced with stimulants to give consumers extra energy. Monster promises to deliver "a big, bad buzz." The company sponsors the X Games and a broad range of high-adrenaline sports. The company boasts that it puts all its marketing dollars into supporting the scenes that energy-drink buyers love. In 2014, the company found itself closing in on Red Bull, the market leader that launched the original energy drink in 1997.[1]

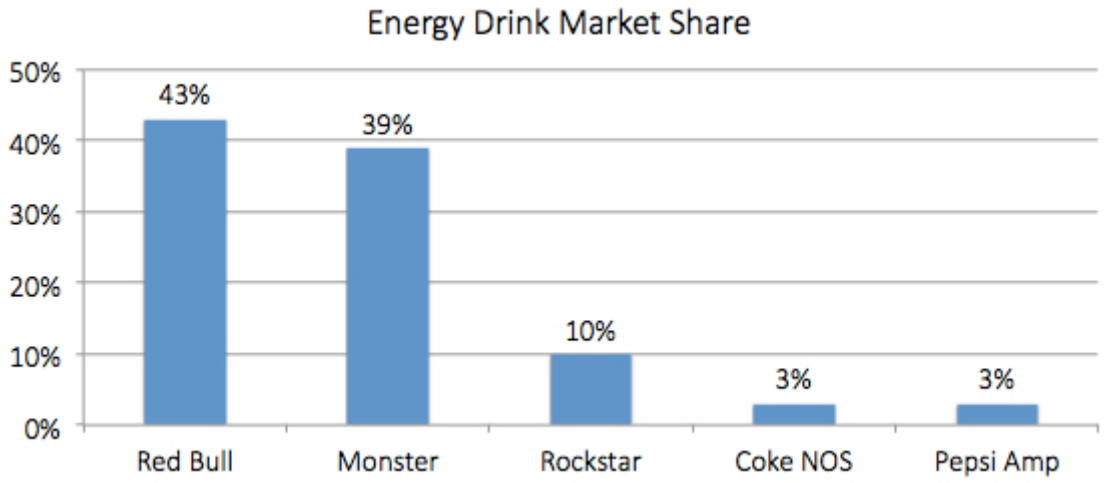


Figure 1. Energy Drink Market Share in 2014. Source: Lumen Learning. Using Channels of Distribution, in Module 12. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/outcome-using-channels-of-distribution/

In deciding how to best capture the top position in the market, Monster forged an important strategic partnership with Coca-Cola. The press release that announced this partnership stressed the benefit to Monster of Coca-Cola's global distribution network—the most powerful distribution network in the global beverage industry:

1. Mitchell, Dan. "Monster, Red Bull, Rockstar Ranked." Time. Time, May 11, 2015. https://time.com/3854658/these-are-the-top-5-energy-drinks/.

> The Coca-Cola Company and Monster Beverage Corporation announced today that they have entered into definitive agreements for a long-term strategic partnership that is expected to accelerate growth for both companies in the fast-growing, global energy-drink category. The new, innovative partnership leverages the respective strengths of the Coca-Cola Company and Monster to create compelling value for both companies and their share owners.
>
> Importantly, the partnership strategically aligns both companies for the long-term by combining the strength of the Coca-Cola Company's worldwide bottling system with Monster's dedicated focus and expertise as a leading energy player globally.[2]

The terms of the agreement also included Coca-Cola transferring all of its energy drinks to Monster, and Monster transferring all of its non-energy beverages to Coca-Cola, with Coca-Cola purchasing 16.7 percent of Monster Beverage Corporation.

Between June 2014 and December 2015, Monster Beverage Company's stock price rose by 115 percent. The company has clearly benefited from access to Coca-Cola's distribution infrastructure and will continue to do so. However, it still lags behind Red Bull, which has the largest market share.

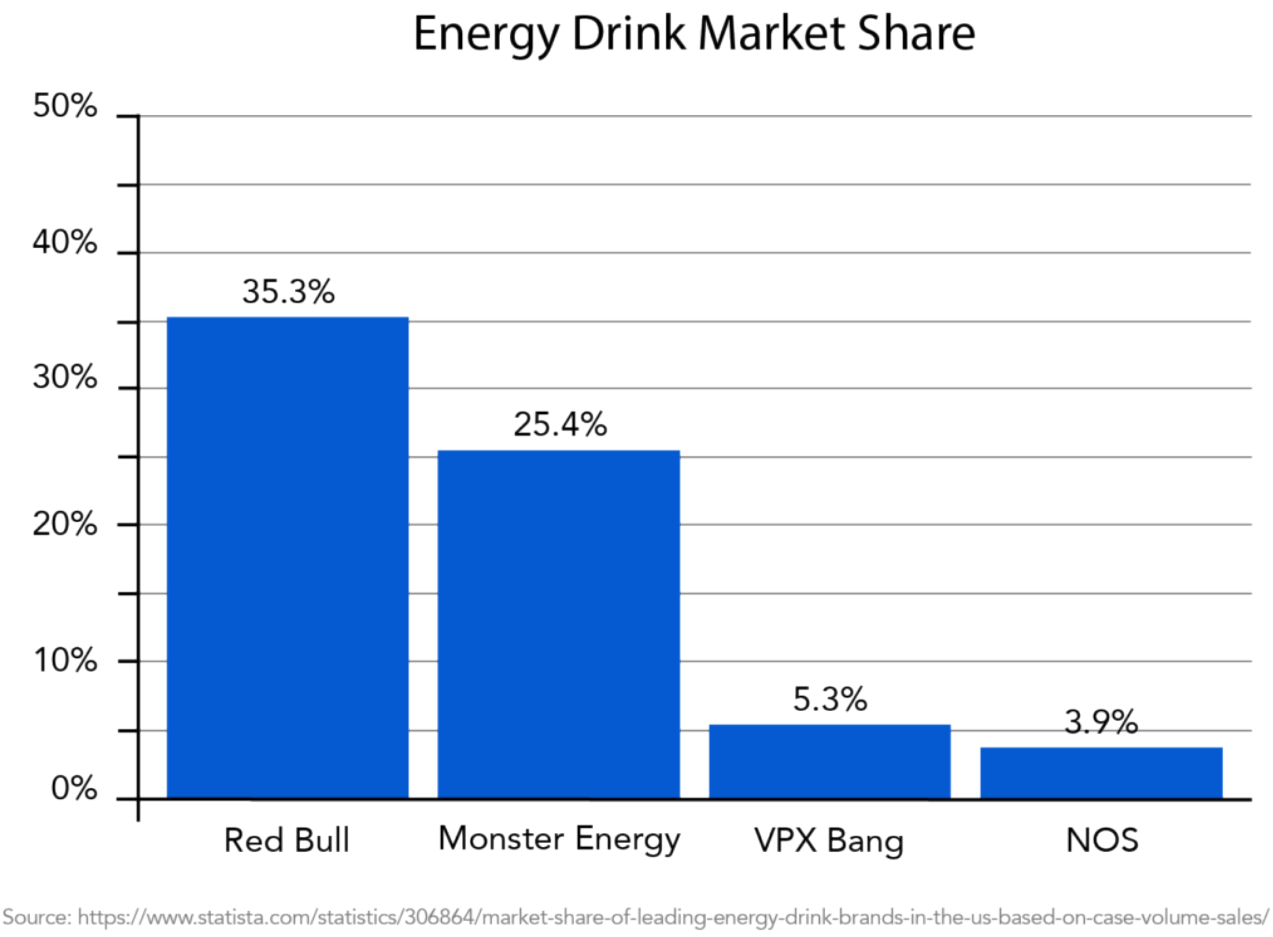


Figure 2. Energy Drink Market Share in 2019. Source: Lumen Learning. Using Channels of Distribution, in Module 12. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/outcome-using-channels-of-distribution/

2. The Coca-Cola Company. "The Coca-Cola Company and Monster Beverage Corporation Enter into Long-Term Strategic Partnership." The Coca-Cola Company, August 14, 2014. https://www.coca-colacompany.com/press-releases/coca-cola-and-monster-enter-into-long-term-partnership

This example illustrates the power of *distribution channels*, which we've been calling "place" in the four Ps. Up next, you'll learn what these are and why companies use them.

Learning Activities

- Reading: Define Channels of Distribution
- Reading: Distribution Objectives
- Reading: Channel Structures
- Reading: The Role of Intermediaries
- Reading: Marketing Channels vs. Supply Chains
- Simulation: Distribution
- Self Check: Using Channels of Distribution

Evolution of Channels of Distribution

As consumers, we take for granted that when we go to a supermarket the shelves will be filled with the products we want; when we are thirsty there will be a Coke machine or bar around the corner, and we count on being able to get online and find any product available for purchase and quick delivery. Of course, if we give it some thought, we realize that this magic is not a given and that hundreds of thousands of people plan, organize, and labor long hours to make this convenience available. It has not always been this way, and it is still not this way in many other parts of the world.

Looking back over time, the channel structure in primitive culture was virtually nonexistent. The family or tribal group was almost entirely self-sufficient. The group was composed of individuals who were both communal producers and consumers of whatever goods and services could be made available. As economies evolved, people began to specialize in some aspect of economic activity. They engaged in farming, hunting, or fishing, or some other basic craft. Eventually, this specialized skill produced excess products, which they exchanged or traded for needed goods that had been produced by others. This exchange process or barter marked the beginning of formal channels of distribution. These early channels involved a series of exchanges between two parties who were producers of one product and consumers of the other.

With the growth of specialization, particularly industrial specialization, and with improvements in methods of transportation and communication, channels of distribution have become longer and more complex. Thus, corn grown in Illinois may be processed into corn chips in West Texas, which are then distributed throughout the United States. Or, turkeys raised in Virginia are sent to New York so that they can be shipped to supermarkets in Virginia. Channels do not always make sense.

The channel mechanism also operates for service products. In the case of medical care, the channel mechanism may consist of a local physician, specialists, hospitals, ambulances, laboratories, insurance companies, physical therapists, home care professionals, and so on. All of these individuals are interdependent and could not operate successfully without the cooperation and capabilities of all the others.

Based on this relationship, we define a *channel of distribution*, also called a marketing channel, as sets of interdependent organizations involved in the process of making a product or service available for use or consumption, as well as providing a payment mechanism for the provider.

This definition implies several important characteristics of the channel. First, the channel consists of *organizations*, some under the control of the producer and some outside the producer's control. Yet all must be recognized, selected, and integrated into an efficient channel arrangement.

Second, the channel management *process* is continuous and requires continuous monitoring and reappraisal. The channel operates twenty-four hours a day and exists in an environment where change is the norm.

Finally, channels should have certain distribution objectives guiding their activities. The structure and management of the marketing channel is thus, in part, a function of a firm's distribution objective. It's also a part of the marketing objectives, especially the need to make an acceptable profit. Channels usually represent the largest costs in marketing a product.

Channel Flows

One traditional framework that has been used to express the channel mechanism is the concept of flow. These flows reflect the many linkages that tie channel members and other agencies together in the distribution of goods and services. From the perspective of the channel manager, there are five important flows.

1. **Product flow**: the movement of the physical product from the manufacturer through all the parties who take physical possession of the product until it reaches the ultimate consumer
2. **Negotiation flow**: the institutions that are associated with the actual exchange processes
3. **Ownership flow**: the movement of title through the channel
4. **Information flow**: the individuals who participate in the flow of information either up or down the channel
5. **Promotion flow**: the flow of persuasive communication in the form of advertising, personal selling, sales promotion, and public relations

Monster Channel Flow

The figure below maps the channel flows for the Monster Energy drink (and many other energy drink brands). Why is Monster's relationship with Coca-Cola so valuable? Every single flow passes through bottlers and distributors in order to arrive in supermarkets where the product will be available to consumers.

Source: Lumen Learning. Define Channels of Distribution, in Module 12. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/define-channels-of-distribution/

Coca-Cola explains the importance of the bottlers in the distribution network:

> While many view our Company as simply "Coca-Cola," our system operates through multiple local channels. Our Company manufactures and sells concentrates, beverage bases and syrups to bottling operations, owns the brands and is responsible for consumer brand marketing initiatives. Our bottling partners manufacture, package, merchandise and distribute the final branded beverages to our customers and vending partners, who then sell our products to consumers.
>
> All bottling partners work closely with customers — grocery stores, restaurants, street vendors, convenience stores, movie theaters and amusement parks, among many others — to execute localized strategies developed in partnership with our Company. Customers then sell our products to consumers at a rate of more than 1.9 billion servings a day.[1]

Revisiting the channel flows we find that the bottlers and distributors play a role in each flow. Examples of the flows are listed below. Remember, while the consumer is the individual who eventually consumes the drink, the supermarkets, restaurants, and other outlets are Coca-Cola's customers.

- Product flow: the bottlers receive and process the bases and syrups

1. The Coca-Cola Company. (2020). The Coca-Cola system. https://www.coca-colacompany.com/company/coca-cola-system

- Negotiation flow: the bottlers buy concentrate, sell product and collect revenue from customers
- Ownership flow: distributors acquire the title of the syrups and own the product until it's sold to supermarkets
- Information flow: bottlers communicate product options to customers and communicate demand and needs to Coca-Cola
- Promotion flow: bottlers communicate benefits and provide promotional materials to customers

Introduction

The distribution strategy supports company-level objectives, as well as marketing objectives. Typically, distribution approaches support company-level objectives related to growth, as in the example of Monster Energy, or profitability, since distribution can improve company efficiencies.

Think about your perspective as a buyer. When you need food, you most likely shop at a grocery store. You could purchase bread from a bakery, milk and eggs from a dairy, fruit and vegetables directly from a farm, but most people don't. They appreciate the convenience of purchasing many different types of items from a single store. We call this *contact efficiency*, because the buyer is able to make contact with many different product types in a more efficient way.

Distribution channels provide efficiencies in a number of areas: product form, time, place, and exchange. Remember the example of the Coca-Cola bottlers: The bottlers purchase a concentrate that is condensed and easy to distribute all around the world. Once the concentrate is mixed with carbonated water and bottled or canned, it's larger and heavier—and more difficult to distribute. For that reason, this process happens in the local markets, where final distribution to customers is easier. The bottlers provide efficiency in product form. Likewise, grocery retailers provide efficiency in time and place by offering many different products in a single shopping experience. Similarly, the groceries are purchased in a single cash or credit card transaction, even though they are coming from many different producers.

These efficiencies benefit both consumers and businesses. Early in this course we looked at the success of the Chobani yogurt company, which has grown through a national and now global distribution network. An effective distribution network enables the company to get its product in front of consumers far from its headquarters in Norwich, New York, and it means that a consumer in Norwalk, California, can buy Chobani's greek yogurt in a local supermarket without ever thinking about the time and effort it required to get it there.

The primary purpose of any channel of distribution is to efficiently bridge the gap between the producer of a product and the user of it, whether the parties are located in the same community or in different countries thousands of miles apart.

Channel Partners That Support Objectives

The channel is composed of different institutions that facilitate the transaction and the physical exchange. Institutions in channels fall into one of the following three categories:

1. The producer of the product: a craftsman, manufacturer, farmer, or other producer
2. The user of the product: an individual, household, business buyer, institution, or government
3. Middlemen at the wholesale and/or retail level

Not all channel members perform the same function. Channel partners perform the following three important functions:

1. **Transactional functions**: buying, selling, and risk assumption

2. **Logistical functions**: assembly, storage, sorting, and transportation
3. **Facilitating functions**: post-purchase service and maintenance, financing, information dissemination, and channel coordination or leadership

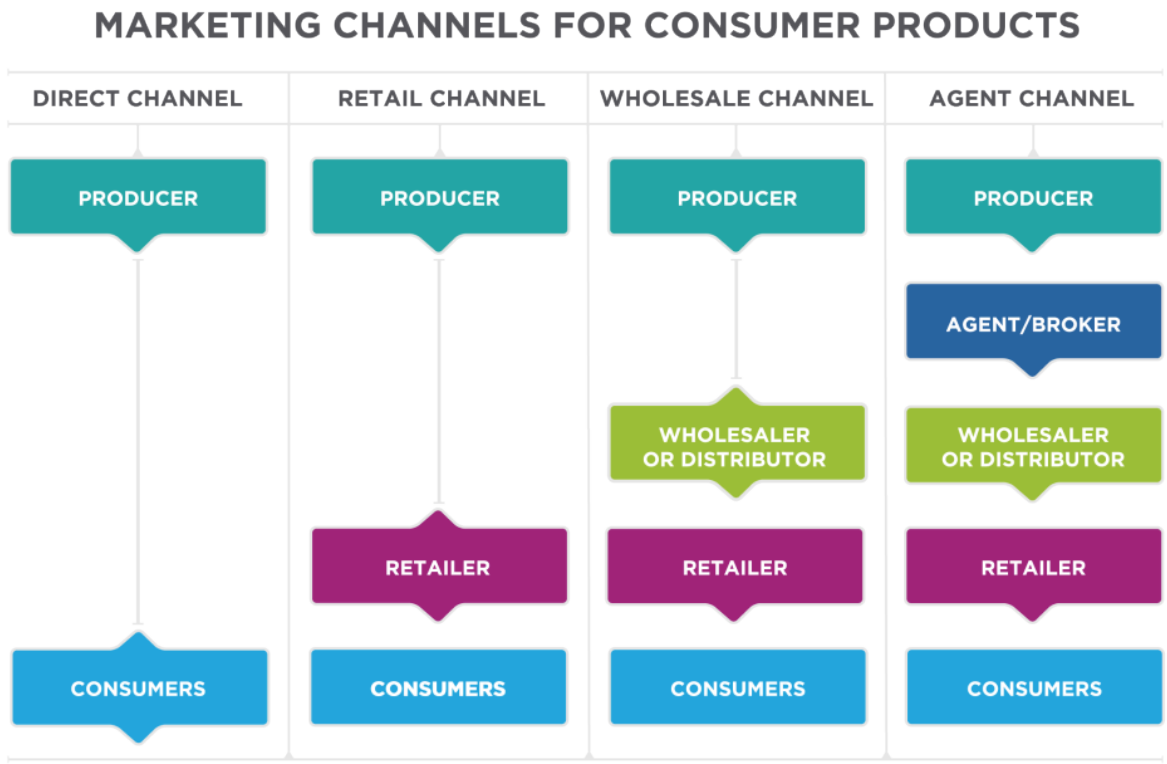
These functions are necessary for the effective flow of product and title to the customer and payment back to the producer. Certain characteristics are implied in every channel. First, although you can eliminate or substitute channel institutions, the functions performed by these institutions cannot be eliminated. Typically, if a wholesaler or a retailer is removed from the channel, the function they perform will either be shifted forward to a retailer or to the consumer, or shifted backward to a wholesaler or to the manufacturer. For example, a producer of custom hunting knives might decide to sell through direct mail instead of retail outlets. The producer absorbs the sorting, storage, and risk functions; the post office absorbs the transportation function; and the consumer assumes more risk in not being able to touch or try the product before purchase.

Second, all channel institution members are part of many channel transactions at any given point. As a result, the complexity may be quite overwhelming. Consider for the moment how many different products you purchase in a single year and the vast number of channel mechanisms you use.

Third, the fact that you are able to complete all these transactions to your satisfaction, as well as to the satisfaction of the other channel members, is due to the *routinization* benefits provided through the channel. Routinization means that the right products are most always found in the places where the consumer expects to find them, comparisons are possible, prices are marked, and methods of payment are available. Routinization aids the producer as well as the consumer, in that the producer knows what to make, when to make it, and how many units to make.

Fourth, there are instances when the best channel arrangement is direct—from the producer to the ultimate user. This is particularly true when the producer feels he can perform the tasks best or when no competent middlemen are available. It may be important for the producer to maintain direct contact with customers so that quick and accurate adjustments can be made. Direct-to-user channels are common in B2B settings where personal sales are a more common tactic. Indirect channels are more typical and prevalent, though, because producers are not able to perform the tasks provided by middlemen as efficiently or with as broad of a reach.

While channels can be very complex, there is a common set of channel structures that can be identified in most transactions. Each channel structure includes different organizations. Generally, the organizations that collectively support the distribution channel are referred to as channel partners.



Source: Lumen Learning. Channel Structures, in Module 12. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/channel-examples/

The **direct channel** is the simplest channel. In this case, the producer sells directly to the consumer. The most straightforward examples are producers who sell in small quantities. If you visit a farmer's market, you can purchase goods directly from the farmer or craftsman. There are also examples of very large corporations who use the direct channel effectively, especially for B2B transactions. Services may also be sold through direct channels, and the same principle applies: an individual buys a service directly from the provider who delivers the service.

Examples of the direct channel include:

- Etsy.com online marketplace
- Farmer's markets
- Oracle's personal sales team that sells software systems to businesses
- A bake sale

Retailers are companies in the channel that focuses on selling directly to consumers. You are likely to participate in

the **retail channel** almost every day. The retail channel is different from the direct channel in that the retailer doesn't produce the product. The retailer markets and sells the goods on behalf of the producer. For consumers, retailers provide tremendous contact efficiency by creating one location where many products can be purchased. Retailers may sell products in a store, online, in a kiosk, or on your doorstep. The emphasis is not on the specific location but on selling directly to the consumer.

Examples of retailers include:

- Walmart discount stores
- Amazon online store
- Nordstrom department store
- Dairy Queen restaurant

From a consumer's perspective, the **wholesale channel** looks very similar to the retail channel, but it also involves a wholesaler. A wholesaler is primarily engaged in buying and usually storing and physically handling goods in large quantities, which are then resold (usually in smaller quantities) to retailers or to industrial or business users. The vast majority of goods produced in an advanced economy have wholesaling involved in their distribution. Wholesale channels also include manufacturers who operate sales offices to perform wholesale functions and retailers who operate warehouses or otherwise engage in wholesale activities.

Examples of wholesalers include:

- Christmas-tree wholesalers who buy from growers and sell to retail outlets
- Restaurant food suppliers
- Clothing wholesalers who sell to retailers

The agent or **broker channel** includes one additional intermediary. Agents and brokers are different from wholesalers in that they *do not take title* to the merchandise. In other words, they do not own the merchandise because they neither buy nor sell. Instead, brokers bring buyers and sellers together and negotiate the terms of the transaction: agents represent either the buyer or seller, usually on a permanent basis; brokers bring parties together on a temporary basis. Think about a real estate agent. They do not buy your home and sell it to someone else; they market and arrange the sale of the home. Agents and brokers match up buyers and sellers or add expertise to create a more efficient channel.

Examples of brokers include:

- An insurance broker, who sells insurance products from many companies to businesses and individuals
- A literary agent, who represents writers and their written works to publishers, theatrical producers, and film producers
- An export broker, who negotiates and manages transportation requirements, shipping, and customs clearance on behalf of a purchaser or producer

It's important to note that the larger and more complex the flow of materials from the initial design through purchase, the more likely it is that multiple channel partners may be involved because each channel partner will bring unique expertise that increases the efficiency of the process. If an intermediary is not adding value, they will likely be removed over time, because the cost of managing and coordinating with each intermediary is significant.

Introduction

While the retail channel is most familiar to students, wholesalers play an important role as intermediaries. Intermediaries act as a link in the distribution process, but the roles they fill are broader than simply connecting the different channel partners. Wholesalers, often called "merchant wholesalers," help move goods between producers and retailers.

For example, McLane Company Inc. is among the largest wholesalers in the United States. The breadth of its operations is described on the company website:

> McLane Foodservice and wholly owned subsidiary, Meadowbrook Meat Company, Inc., operates 80 distribution centers across the U.S. and one of the nation's largest private fleets. The company buys, sells, and delivers more than 50,000 different consumer products to nearly 90,000 locations across the U.S. In addition, McLane provides alcoholic beverage distribution through its wholly owned subsidiary, Empire Distributors, Inc. McLane is a wholly owned unit of Berkshire Hathaway Inc. and employs more than 20,000 teammates.[1]

Let's look at each of the functions that a merchant wholesaler fulfills.

Purchasing

Wholesalers purchase very large quantities of goods directly from producers or from other wholesalers. By purchasing large quantities or volumes, wholesalers are able to secure significantly lower prices.

Imagine a situation in which a farmer grows a very large crop of potatoes. If the farmer sells all of the potatoes to a single wholesaler, they will negotiate one price and make one sale. Because this is an efficient process that allows the farmer to focus on farming (rather than searching for additional buyers), they will likely be willing to negotiate a lower price. Even more important, because the wholesaler has such strong buying power, the wholesaler is able to force a lower price on every farmer who is selling potatoes.

The same is true for almost all mass-produced goods. When a producer creates a large quantity of goods, it is most efficient to sell all of them to one wholesaler, rather than negotiating prices and making sales with many retailers or an even larger number of consumers. Also, the bigger the wholesaler is, the more likely it will have significant power to set attractive prices.

Warehousing and Transportation

Once the wholesaler has purchased a mass quantity of goods, it needs to get them to a place where they can be purchased by consumers. This is a complex and expensive process. McLane has invested more than $1 billion in their national network of 24 modern distribution centers covering the entire U.S., and in maintaining a modern fleet of

1. https://www.mclaneco.com/content/mclaneco/en/about.html

more than 3,000 multi-temperature trailers.[2] Having outfitted centers with state-of-the-art inventory tracking systems allows McLane to manage the diverse products that move through the center. It relies on its own vast trucking fleet to handle the transportation.

Grading and Packaging

Wholesalers buy a very large quantity of goods and then break that quantity down into smaller lots. The process of breaking large quantities into smaller lots that will be resold is called bulk breaking. Often this includes physically sorting, grading, and assembling the goods. Returning to our potato example, the wholesaler would determine which potatoes are of a size and quality to sell individually and which are to be packaged for sale in five-pound bags.[3]

Risk Bearing

Wholesalers either take title to the goods they purchase, or they *own* the goods they purchase. There are two primary consequences of this, both of which are both very important to the distribution channel. First, it means that the wholesaler finances the purchase of the goods and carries the cost of the goods in inventory until they are sold. Because this is a tremendous expense, it drives wholesalers to be accurate and efficient in their purchasing, warehousing, and transportation processes.

Second, wholesalers also bear the risk for the products until they are delivered. If goods are damaged in transport and cannot be sold, then the wholesaler is left with the goods and the cost. If there is a significant change in the value of the products between the time of the purchase from the producer and the sale to the retailer, the wholesaler will absorb that profit or loss.

Marketing

Often, the wholesaler will fill a role in the promotion of the products that it distributes. This might include creating displays for the wholesaler's products and providing the display to retailers to increase sales. The wholesaler may advertise its products that are carried by many retailers.

Wholesalers also influence which products the retailer offers. For example, McLane Company was a winner of the 2016 Convenience Store News Category Captains, in recognition of its innovations in providing the right products to its customers. McLane created unique packaging and products featuring movie themes, college football themes, and other special occasion branding that were designed to appeal to impulse buyers. They also shifted the transportation and delivery strategy to get the right products in front of consumers at the time they were most likely to buy. Its convenience store customers are seeing sales growth, as is the wholesaler. [4]

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2. https://www.mclaneco.com/content/mclaneco/en/solutions.html#grocery

3. http://unstats.un.org/unsd/cr/registry/regcs.asp?Cl=9&Lg=1&Co=6

4. http://www.csnews.com/industry-news-and-trends/special-features/why-mclane-2016s-general-merchandise-category-captain?nopaging=1

Distribution

As distribution channels have evolved, some retailers, such as Walmart and Target, have grown so large that they have taken over aspects of the wholesale function. Still, it is unlikely that wholesalers will ever go away. Most retailers rely on wholesalers to fulfill the functions that we have discussed, and they simply do not have the capability or expertise to manage the full distribution process. Plus, many of the functions that wholesalers fill are performed most efficiently at scale. Wholesalers are able to focus on creating efficiencies for their retail channel partners that are very difficult to replicate on a small scale.

Source: Lumen Learning. Marketing Channels vs. Supply Chains, in Module 12. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/marketing-channels-vs-supply-chains/

What Is a Supply Chain?

We have discussed the channel partners, the roles they fill, and the structures they create. Marketers have long recognized the importance of managing distribution channel partners. As channels have become more complex and the flow of business has become more global, organizations have recognized that they need to manage more than just the channel partners. They need to manage the full chain of organizations and transactions from raw materials through final delivery to the customer— in other words, the **supply chain.**

The supply chain is a system of organizations, people, activities, information, and resources involved in moving a product or service from supplier to customer. Supply chain activities involve the transformation of natural resources, raw materials, and components into a finished product that is delivered to the end customer.[1]

The marketing channel generally focuses on how to increase value to the customer by having the right product in the right place at the right price at the moment the customer wants to buy. The emphasis is on providing value to the customer, and the marketing objectives usually focus on what is needed to deliver that value.

1. Nagurney, Anna (2006). Supply Chain Network Economics: Dynamics of Prices, Flows, and Profits. Cheltenham, UK: Edward Elgar. ISBN 1-84542-916-8.

Supply chain management takes a different approach. The Council of Supply Chain Management Professionals (CSCMP) defines supply chain management as follows:

> Supply Chain Management encompasses the planning and management of all activities involved in sourcing and procurement, conversion, and all logistics management activities. Importantly, it also includes coordination and collaboration with channel partners, which can be suppliers, intermediaries, third-party service providers, and customers. In essence, supply chain management integrates supply and demand management within and across companies. Supply Chain Management is an integrating function with primary responsibility for linking major business functions and business processes within and across companies into a cohesive and high-performing business model. It includes all of the logistics management activities noted above, as well as manufacturing operations, and it drives coordination of processes and activities with and across marketing, sales, product design, finance and information technology.[2]

Supply Chain and Marketing Channels

The supply chain and marketing channels can be differentiated in the following ways:

1. **The supply chain is broader than marketing channels.** It begins with raw materials and delves deeply into production processes and inventory management. Marketing channels are focused on bringing together the partners who can most efficiently deliver the right marketing mix to the customer in order to maximize value. Marketing channels provide a more narrow focus within the supply chain.
2. **Marketing channels are purely customer-facing.** Supply chain management seeks to optimize how products are supplied, which adds a number of financial and efficiency objectives that are more internally focused. Marketing channels emphasize a stronger market view of the customer expectations and competitive dynamics in the marketplace.
3. **Marketing channels are part of the marketing mix.** Supply chain professionals are specialists in the delivery of goods. Marketers view distribution as one element of the marketing mix, in conjunction with product, price, and promotion. Supply chain management is more likely to identify the most efficient delivery partner. A marketer is more likely to balance the merits of a channel partner against the value offered to the customer. For instance, it might make sense to keep a channel partner who is less efficient but provides important benefits in the promotional strategy.

Successful organizations develop effective, respectful partnerships between the marketing and supply chain teams. When the supply chain team understands the market dynamics and the points of flexibility in product and pricing, they are better able to optimize the distribution process. When marketing has the benefit of effective supply chain management—which is analyzing and optimizing distribution within and beyond the marketing channels—greater value is delivered to customers. If the supply chain team came to you (the marketer) and told you that, based on their analysis, you should add a lean warehousing, just-in-time inventory approach for your product, you should definitely listen.

2. https://cscmp.org/CSCMP/Educate/SCM_Definitions_and_Glossary_of_Terms.aspx

Try It

Play the simulation below multiple times to see how different choices lead to different outcomes. All simulations allow unlimited attempts so that you can gain experience applying the concepts.

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https://www.branchtrack.com/projects/23pua710/embed

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10.3 MANAGING DISTRIBUTION CHANNELS

Learning Objectives

Explain how channels affect the marketing of products and services

By March 2014, most Americans had noticed the Geico gecko; some had fallen in love with him. Regardless of buyers' feelings about the little lizard, by 2014 enough had purchased auto insurance from Geico through its online sales portal to change the landscape of the insurance industry. *Fortune* magazine reported on the company's success:

> It's official. After decades as the second-largest auto insurer in the U.S., Allstate Corp. now is No. 3.
>
> Geico, the online auto insurer owned by Warren Buffett's Berkshire Hathaway Inc., surpassed Allstate in 2013 in auto premiums collected. Berkshire Hathaway released its 2013 results today, finally laying out in black and white the the long-anticipated symbolic passing of that torch.
>
> State Farm Insurance Cos. remains the largest auto insurer in the U.S. by a large margin. But it's telling that the No. 2 player now is a company that sells mainly over the Internet rather than through an army of agents. Both State Farm and Allstate still largely depend on thousands of agents around the country to sell their product, but the online channel has grown much faster over the past decade and is expected to continue that trajectory.[1]

Geico chose to use a channel strategy that eliminates agents as intermediaries and provides a direct channel to consumers. What benefits does this offer consumers? In order to take full advantage of the channel, Geico had to clearly identify and communicate the benefits to its target customers. It did this largely by means of a clever advertising slogan: "Give us 15 minutes and we'll save you 15 percent on your car insurance." (Some credit for Geico's success is probably due to the lizard, too, which helped the company improve its brand visibility.)

While the message doesn't say anything overt about Geico's channel strategy, the message to customers is clear: Geico delivers good value ("save 15 percent") *fast* (it only takes 15 minutes). The company's ability to offer that value (savings and speed) really does come from its choice of channel strategy: direct to consumers (eliminating the intermediary) equals savings of time and money.

As you'll learn in this section, much of marketing's role in the distribution process is identifying the right channels, creating and managing effective channel partnerships, and ensuring that the channel performance provides value to customers.

Learning Activities

1. http://adage.com/article/cmo-strategy/geico-overtakes-allstate-2-auto-insurer/291947/

- Reading: Optimizing Channels
- Reading: Third-Party Sales
- Reading: Service Outputs
- Self Check: Managing Distribution Channels

Introduction

Geico didn't simply find itself owning the online, direct channel. It analyzed its customer needs and competitors' positions and chose a strategy to accelerate sales growth: Geico defined and managed its channel strategy.

The Channel Management Process

The channel management process contains five steps.

1. Analyze the Consumer

We begin the process of channel management by answering two questions. First, to whom shall we sell this merchandise immediately? Second, who are our ultimate users and buyers? The immediate and ultimate customers may be identical or they may be quite separate. In both cases, certain basic questions apply: There is a need to know *what* the customer needs, *where* they buy, *when* they buy, *why* they buy from certain outlets, and *how* they buy.

It is best that we first identify the traits of the ultimate user since the results of that evaluation might determine the other channel institutions we would use to meet those needs. For example, the buying characteristics of the purchaser of a high-quality curved TV might be the following:

- purchased only from a well-established, reputable dealer
- purchased only after considerable research to compare prices and merchandise characteristics
- purchase may be postponed
- purchased only from a dealer equipped to provide prompt and reasonable product service

These buying specifications illustrate the kinds of requirements that the manufacturer must discover. In most cases, purchase specifications are fairly obvious and can be determined without great difficulty. In others, though, they can be difficult to determine. For example, some consumers will only dine at restaurants that serve menu items that meet particular dietary needs; others will only patronize supermarkets that demonstrate social responsibility in their sourcing and packaging. Still, through careful and imaginative research, most of the critical factors related to consumer buying specifications can be figured out.

Once the consumer's buying specifications are known, the channel planner can decide on the type or types of wholesaler or retailer through which a product should be sold. This means that a manufacturer contemplating distribution through particular types of retailers must become intimately familiar with the precise location and performance characteristics of those he is considering.

In much the same way that buying specifications of ultimate users are determined, the manufacturers must also discover buying specifications for resellers. Of particular importance is the question "from whom do my retail outlets prefer to buy?" The answer to this question determines the types of wholesalers (if any) that the manufacturer should use. Although many retailers prefer to buy directly from the manufacturers, this is not always the case. Often, the exchange requirements of manufacturers (e.g., infrequent visit, large order requirements, and stringent credit terms)

are the opposite of those desired by retailers. Such retailers would rather buy from local distributors who have lenient credit terms and offer a wide assortment of merchandise.

2. Establish the Channel Objectives

Once customer needs are specified, the marketer can decide what the channel must achieve, which can be captured in the channel objectives. Channel objectives are based on customer requirements, the marketing strategy, and the company strategy and objectives. However, in cases where a company is just getting started, or an older company is trying to carve out a new market niche, the channel objectives may be the dominant objectives. For example, a small manufacturer wants to expand outside the local market. An immediate obstacle is the limited shelf space available to this manufacturer. The addition of a new product to the shelves generally means that space previously assigned to competitive products must be obtained. Without this exposure, the product is doomed.

As one would expect, there is a wide diversity of channel objectives. The following areas encompass the major categories:

- Growth in sales by reaching new markets and/or increasing sales in existing markets.
- Maintenance or improvement of market share
- Achieve a pattern of distribution by a certain time, place, and form
- Reduce costs or increase profits by creating an efficient channel

3. Specify Distribution Tasks

After the distribution objectives are set, it is appropriate to determine the specific distribution tasks (functions) to be performed in that channel system. The channel manager must be very specific in describing the tasks and also detail how these tasks will change depending upon the situation. For example, a manufacturer might delineate the following tasks as necessary to profitably reach the target market:

- Provide delivery within 48 hours after order placement
- Offer adequate storage space
- Provide credit to other intermediaries
- Facilitate a product return network
- Provide readily available inventory (quantity and type)

4. Evaluate and Select Among Channel Alternatives

Determining the specific channel tasks is a prerequisite of the evaluation and selection process. There are four considerations for channel alternatives: number of levels, intensity at the various levels, types of intermediaries at each level, and application of selection criteria to channel alternatives. In addition, it is important to decide who will be in charge of the selected channels.

Number of Levels

Channels can range in levels from two to several (five is typical). The two-level channel (producer to consumer) is a

direct channel. The number of levels in a particular industry might be the same for all the companies simply because of tradition. In other industries, this dimension is more flexible and subject to rapid change.

Intensity at Each Level

Once the number of levels has been decided, the channel manager needs to determine the actual number of channel components involved at each level. How many retailers in a particular market should be included in the distribution network? How many wholesalers?

The intensity decision is extremely critical because it is an important part of the firm's overall marketing strategy. Companies such as Starbucks and Hershey's have achieved high levels of success through their intensive distribution strategy.

Types of Intermediaries and Application of Selection Criteria

As we discussed, there are several types of intermediaries that operate in a particular channel system. The objective is to identify several possible alternative channel structures and evaluate these alternatives with respect to some set of criteria such as company factors, environmental trends, the reputation of the reseller, and the experience of the reseller.

Who Should Lead?

Regardless of the channel framework selected, channels usually perform better if someone is in charge, providing some level of leadership. Essentially, the purpose of this leadership is to coordinate the goals and efforts of channel institutions. The level of leadership can range from very passive to quite active—verging on dictatorial. The style may range from very negative, based on fear and punishment, to very positive, based on encouragement and reward. In a given situation, any of these leadership styles may prove effective.

Under which conditions should the manufacturers lead? The wholesaler? The retailer? While the answer is contingent upon many factors, in general, the manufacturer should lead if control of the product (merchandising, repair) is critical and if the design and redesign of the channel is best done by the manufacturer. The wholesaler should lead where the manufacturers and retailers have remained small in size, large in number, relatively scattered geographically, are financially weak, and lack marketing expertise. The retailer should lead when product development and demand stimulation are relatively unimportant and when personal attention to the customer is important.

5. Evaluating Channel Member Performance

The need to evaluate the performance level of the channel members is just as important as the evaluation of the other marketing functions. Clearly, the marketing mix is quite interdependent, and the failure of one component can cause the failure of the whole. There is one important difference, though: the channel member is dealing with independent business firms, rather than employees and activities under its control, these firms may be reluctant to change their practices.

Sales is the most popular performance criterion used in channel evaluation. Other possible performance criteria are maintenance of adequate inventory, selling capabilities, attitudes of channel intermediaries toward the product, competition from other intermediaries and from other product lines carried by the manufacturer's own channel members.

Correcting or Modifying the Channel

As a result of the evaluation process, or because of other factors such as new competition, technology, or market potential, changes may need to be made in the channel structure. Because channel relationships tend to be long-term, and the channel decision has such a pervasive impact on the business, any change should be carefully evaluated. Later in this module, we will discuss service outputs and their role in measuring and modifying channel performance.

The Human Aspect of Distribution

By its very nature, a channel of distribution is made up of people. Ideally, a channel member should coordinate their efforts with other members in such a way that the performance of the total distribution system to which they belong to is enhanced. This is rarely the case, though. Part of this lack of cooperation is due to the organizational structure of many channels, which encourages a channel member to be concerned only with channel members immediately adjacent to them, from whom they buy and to whom they sell. A second reason is the tendency of channel members to exhibit their independence as separate business operations. It is difficult to gain cooperation under this arrangement. Four human dimensions have been incorporated into the study of channel behavior: roles, communication, conflict, and power. It is assumed that an understanding of these behavioral characteristics will increase the effectiveness of the channel.

Role

Most channel members participate in several channels. Establishing the *role* of a channel member means defining what the behavior of the channel member should be. For example, a basic role prescription of the manufacturer may be to maximize the sales of their particular brand of product. This suggests that the manufacturer is to actively compete for market share and aggressively promote its brand. The role prescriptions of independent wholesalers, however, are likely to be quite different. Since wholesalers may represent several competing manufacturers, their role would be to build sales with whatever brands are most heavily demanded by retailers. Therefore, a major issue in channel management is defining the role prescriptions of the various participants in order to achieve desired results. This is accomplished through a careful appraisal of the tasks to be performed by each channel member and clear communication of these roles to the members.

Communication

Channel communication is sending and receiving information that is relevant to the operation of the channel. It is critical for the channel member to foster an effective flow of information within the channel. Communication will take place only if the channel member is aware of the pitfalls that await. The channel manager should therefore try to detect any behavioral problems that inhibit the effective flow of information through the channel and try to solve these problems before the communication process in the channel becomes seriously distorted.

Conflict

Any time individuals or organizations must work together and rely on one another for personal success, conflict is inevitable. In a distribution channel, conflict usually arises in one of two forms: structural or behavioral.

Structural conflict occurs when the channel partners are expected to cooperate *and* compete. For example, imagine that you want to buy a new pair of Nike shoes and you have two choices. You can go to a local Foot Locker retailer and buy the shoes for $89, or you can go online to Nike.com and buy the shoes for $69. In effect, Nike is undercutting its retail channel while selling through a direct channel. It is likely that Foot Locker is unhappy about this. While a retailer expects to compete with other retailers who carry the same brands, it doesn't expect that the manufacturer will sell through the direct channel at deep discounts. This type of structural conflict is often the cause of behavioral conflict.

All organizations expect to manage some level of behavioral conflict in the channel. They do this by:

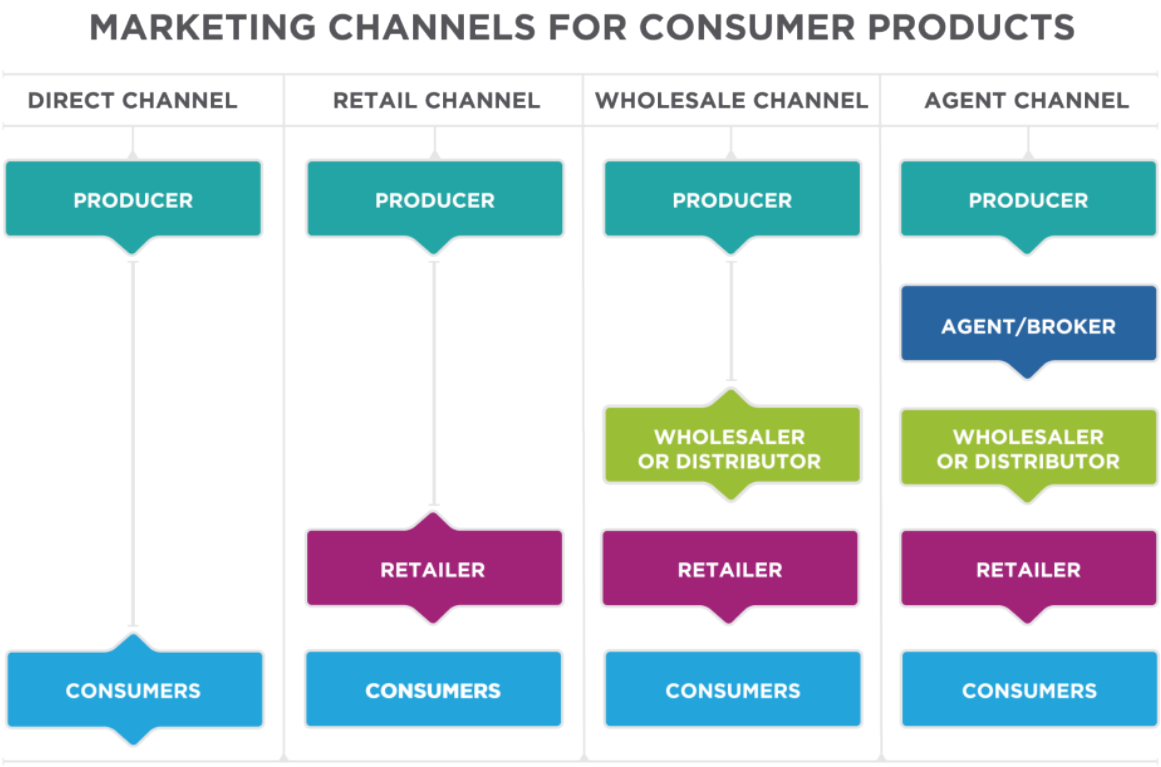
- Establishing a mechanism for detecting conflict
- Evaluating the effects of the conflict
- Resolving the conflict

Given the distributed nature of the channel, it is often difficult to resolve conflict. Strategies such as the formation of a channel committee, joint goal setting, and bringing in arbitrators have all been used. In some cases, conflict becomes part of the ongoing channel dynamic—it's difficult but manageable. Eric Schmidt, chairman and CEO of Google Inc., notes: "From my experience, the most successful companies are the ones where there is enormous conflict. Conflict does not mean killing one another but instead means there is a process by which there is a disagreement. It is okay to have different points of view and disagree because tolerance of multiple opinions and people often leads to the right decision through some kind of process."

Power

Power is the capacity to use force in a relationship. It is often the means by which one party is able to control or influence the behavior of another party. In the channel mechanism, power refers to the capacity of a particular channel member to control or influence the behavior of another channel member. For instance, a large retailer may want the manufacturer to modify the design of the product or perhaps be required to carry less inventory. Both parties may attempt to exert their power in an attempt to influence the other's behavior. The ability of either of the parties to achieve this outcome will depend on the amount of power that each can bring to bear.

Introduction



Source: Lumen Learning. Third-Party Sales, in Module 12. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/third-party-sales/

Throughout the channel structure, there are a number of points where sales may occur.

The most straightforward of these is the direct channel, in which the producer sells directly to the consumer. In every other structure, multiple sales occur—from producer to wholesaler, from wholesaler to retailer, from retailer to buyer. In cases involving an intermediary, there is a third-party sale. Third-party sales are sales conducted by anyone other than the producer. Even when there are four or five parties involved, we refer to all of them as third parties.

Third-party sales are often vexing for marketers. When a company uses a direct sales approach, the marketer can devise a sales compensation structure that creates the right incentives for the sales team to sell the right products to the right customers at the right price. In a third-party sales situation, it is much more difficult to understand and influence the sales process. Let's look at a direct sales situation and a third-party sales situation to understand the differences.

Direct Sales Incentives

Nanette Lepore is a high-end clothing designer who has created a personal brand. Nanette sells direct to con-

sumers both online and through her boutique stores across the U.S. Through the direct channel, Nanette's marketing team owns every aspect of the sales experience. When customers enter a store or land on her Web page, they see a complete outfit that is designed to sell the look that Nanette most wants them to buy. This includes clothing, shoes, and accessories all designed and sold by Nanette Lepore.

Nanette Lepore's blog and social media presence drive interest in the products that are available in stores and online, with an emphasis on those that are targeted for immediate sale.

When she completes drawings for next season's looks, Nanette provides digital copies of her drawings to her sales associates, who have been cultivating a list of their most fashion-forward customers. These customers can review drawings and preorder clothing before it is available to the public. These customers pay top dollar for Nanette Lepore's most current creations.

In the store, sales associates are not equally compensated for all sales. Once a line of clothing goes on sale, the price is reduced. From the perspective of a sales associate, instead of earning a 5 percent commission ($40) on an $800 dress, the associate will earn a 5 percent commission ($10) on a discounted $200 dress. The associate may earn no commission or a reduced commission on clearance items.

The sales staff is preparing customers in advance and in the moment to pay top dollar for Nanette Lepore's hottest fashions. They do this because there is an entire sales system and compensation structure that centers on Nanette Lepore. They also do this because they have become part of the Nanette Lepore brand and feel a commitment to Nanette Lepore and to the women for whom she is designing.

Third-Party Sales Incentives

Many retailers sell the Nanette Lepore line, including Hudson's Bay, Walmart, Nordstrom, Zappos, Gilt, Shopbop, and 6pm.com.

The Hudson's Bay (a Canadian department store) sales associate in the dress department is paid a flat commission regardless of the brand she sells. A strong sales associate will identify shoppers with an affinity for Nanette's designs and present them in the changing room or call to let them know that new Nanette Lepore designs have arrived. If a dress from Diane von Furstenberg or Kate Spade is more likely to make the sale, the dress by Nanette Lepore will not be suggested. The sales associate has incentives to make the largest possible sale—regardless of brand.

If the customer buys a Nanette Lepore dress and heads to the shoe department or accessory department to complete her outfit, she won't have Nanette Lepore brands as an option. Each department carries the most popular brands, and Nanette Lepore bags and shoes are a new, unproven brand.

In a more extreme example, 6pm.com is the online bargain outlet for Zappos (now owned by Amazon). There is no sales associate, and little effort is made to feature or present any particular brand or clothing. Customers come searching for rock-bottom pricing. Nanette Lepore's fashions sell at a discount of 60 percent to 70 percent off the manufacturers' suggested retail price.

If this example doesn't seem like something that you have experienced, walk into BestBuy and look for a phone, camera, or computer. Ask a sales associate to help you. You will quickly find that the store's sales compensation structure is driving what is available to you—and what is recommended.

What about something as simple as a breakfast cereal in a grocery store? Which products are at eye level? Which are difficult to find? Which are not available? Sales incentives are determining the answers to each of these questions.

Approaches to Support Third-Party Sales Success

If the marketer works for the producer—in our example, Nanette Lepore—they will lose significant control and influence in the third-party sale, while the Hudson's Bay marketing team will gain control or power. How can a marketer approach third-party sales most effectively? The following approaches can be used:

1. **Understand and align incentives.** A good marketer must understand why each channel partner buys and sells, how they are compensated, and what objectives they are hoping to achieve. In third-party sales, the marketer must optimize an existing structure rather than creating the structure.
2. **Provide exceptional sales support.** While the Nanette Lepore sales associates only needs to learn about her line, the Hudson's Bay sales associates must learn thirty or more. Make it very easy for the third-party sales team to become experts in your product.
3. **Create demand for your product.** Often marketers blame channel partners for a marketing mix that doesn't deliver value to the customer. While it is trite to say that a good product sells itself, it is true that the right product is easier to sell. When the distribution channel—"place," in the marketing mix—creates a lot of complexity, it is even more important to get the other three elements of the marketing mix just right.

As with each element of the marketing mix, different customer segments have varying needs regarding place, or distribution. Service outputs offer a way to focus on the unique needs of a target buyer and plan for those in the distribution strategy. Service outputs are the productive outputs of the marketing channel that consumers value and desire.

By identifying the service outputs for each segment of target buyers, the marketer can optimise the distribution strategy for each major segment. It is essential to acknowledge that there are always trade-offs associated with the distribution strategy. A channel that provides a high level of customised services, such as a boutique store, will also usually add cost. A channel that provides goods in very large quantities with a lower level of service, such as Costco, typically offers them at a lower cost. Either might be the "right" solution depending on the customer segment.

Common Service Outputs

When considering the goals of channel management in meeting customer needs, there are a few broad service outputs that channels can address. The service outputs are explained from the perspective of the target customer by identifying needs or preferences that a target customer might have:

1. **Spacial convenience**: Can I get the product at or near the location where I want it?
2. **Timing of availability**: Do I need the product immediately or am I willing to wait?
3. **Quantity**: Are you willing to buy in bulk or purchase multiple items?
4. **Assortment and variety**: Do I have a very particular need or a flexible need? Am I looking for one or many options?
5. **Service**: Do I require assistance or support through the purchase process?
6. **Information**: Do I need information to make a purchase, or do I enter the buying process having already made a decision?

Again, service outputs generally involve trade-offs. For example, few customers would ever say, "Timing of availability has no impact on my purchase decision," but the timing of availability may be less important than the quantity or service needs. Customers generally have strong preferences in some areas and are more flexible in others.

Service Outputs in Practice

Imagine that a farmer is selling eggs and wants to meet the needs of her final consumers. Eggs are a fairly uniform product, a commodity, so most consumers are going to make decisions about which eggs they purchase based more on the distribution strategy than on a product or promotional strategy. Price is likely to be a factor, too.

Let's consider how two different customers might weigh the service outputs in two very different but simple egg-buying decisions.

Service Outputs. Provided by: Lumen Learning. License: CC BY: Attribution

Service Output	Experience: I'm looking for a nice restaurant for brunch.	Service Output Level	Experience: I need eggs that I can cook for my family's breakfast.	Service Output Level
Spatial Convenience	I'm willing to drive a little bit, especially to an interesting location with strong reviews.	Low	I want the most convenient location on my route where I can get in and out quickly.	High
Timing of Availability	I'm seeking experience and am willing to invest some time to acquire it.	Low	I want the quickest purchase possible.	High
Quantity	I want a portion that seems reasonably sized and offers good value for the money.	Medium	I don't use eggs in bulk, but I need enough to feed my family.	Medium
Assortment and Variety	I would like to have a nice selection of preparations, and I prefer organic farm-fresh eggs.	High	I just need a dozen eggs of any brand.	Low
Service	I want a full-service experience from the wait staff and chef.	High	I want a quick and efficient check-out, but I don't require help with selection.	Low
Information	I would like to learn about my options and understand the opinions of others who have eaten at this restaurant.	High	I already know everything I need to make a purchase.	Low

For the farmer, these different scenarios can inform the distribution strategy. If the farmer is looking to command a higher price, then they may want to focus on a strategy of selling through restaurant suppliers or directly to restaurants as a retail channel. If the farmer is looking to sell a larger quantity of eggs, they likely need to sell to a wholesaler who can get as many of their eggs as possible into the right supermarkets located in neighbourhoods with many consumers seeking spatial convenience in the purchase process. Alternatively, they might want to pursue both strategies, but do so with an awareness that they are serving two distinct target audiences with very different needs.

By understanding the service outputs of buyer segments, marketers can better match distribution options to buyer needs and provide the right trade-offs to each buyer.

10.4 RETAILERS AS CHANNELS OF DISTRIBUTION

What you'll learn to do: describe types of retailers and explain how they are used as a channel of distribution

Retailing is important for marketing students to understand for two main reasons. First, most channel structures end with a retailer. While products may pass through a wholesaler or involve a broker or agent, they also include a retailer. Second, retail offers an immense number of job opportunities. Today in the Canada, there are 1,167,260 [1] retail establishments that support 2 million jobs [2]. Retail also contributes $100 billion to the Canadian gross domestic product. [3]. Major retail employers are shown in the following graphic with a full report available from the Retail Council of Canada. [4]

Learning Activities

- Reading: Define Retailing
- Reading: Types of Retailers
- Reading: Retail Strategy
- Self Check: Retailers As Channels of Distribution

1. https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=3310008701
2. https://www12.statcan.gc.ca/nhs-enm/2011/as-sa/99-012-x/2011002/c-g/c-g02-eng.cfm
3. https://www.statista.com/statistics/858030/gdp-for-retail-trade-in-canada/
4. https://www.retailcouncil.org/community/store-operations/canadas-top-100-retailers/

Introduction

Retailing involves all activities required to market consumer goods and services to ultimate consumers who are purchasing for individual or family needs.

By definition, B2B purchases are not included in the retail channel since they are not made for individual or family needs. In practice, this can be confusing because many retail outlets do serve both consumers and business customers—like Home Depot, a home improvement retailer, which has a Pro Xtra program for selling directly to builders and contractors. Generally, retailers that have a significant B2B or wholesale business report these numbers separately in their financial statements, acknowledging that they are separate lines of business within the same company. Those with a pure retail emphasis do not seek to exclude business purchasers. They simply focus their offering to appeal to individual consumers, knowing that some businesses may also choose to purchase from them.

We typically think of a store when we think of a retail sale, even though retail sales occur in other places and settings. For instance, they can be made by a Pampered Chef salesperson in someone's home. Retail sales also happen online, through catalogs, automatic vending machines, and in hotels and restaurants. Nonetheless, despite tremendous growth in both nontraditional retail outlets and online sales, most retail sales still take place in brick-and-mortar stores.

The Retail Industry

The retail industry covers an enormous range of consumer needs. The National Retail Federation ranks the retails industry's largest compaies by sales. In 2021, the top 10 retailers were:

1. Walmart
2. Amazon
3. Costco
4. The Home Depot
5. The Kroger Co.
6. Walgreens Boots Alliance
7. Target
8. CVS Health Corporation
9. Lowe's Companies
10. Albertsons Companies

[1].

The retail industry is designed to create contact efficiency—allowing shoppers to buy what they want efficiently

1. National Retail Federation. (2022). *Top 100 Retailers 2022 List*. https://nrf.com/resources/top-retailers/top-100-retailers/top-100-retailers-2022-list

with a smaller number of transactions. This design doesn't come from a master retail plan. It's driven by market forces. When a retailer sees an opportunity to expand its offering to increase purchases from customers in one location, it will expand its offering to meet the opportunity. When Barnes & Noble adds Starbucks coffee shops to its locations, customers visit more frequently and stay longer, increasing the chance of additional purchases. Costco recognized that busy holiday shoppers would rather buy a Christmas tree as part of a larger convenience purchase than have a focused (and less convenient) buying experience at a Christmas tree lot. Such opportunities cause retailers to expand their offerings, creating greater contact efficiency for consumers. Given this logic and opportunity, why doesn't every retailer become a Walmart Super Store filled with every possible product? Like all organizations that market effectively, retailers shape their offerings to a target buyer. Retailers must also consider the particular shopping experience a buyer is seeking in that moment or context. One experience isn't right for everyone at the same time; nor are all "experiences" compatible. For example, a buyer is expecting a different buying experience when they fill their car's gas tank and when they stay at a luxury resort. Retailers define their target buyer segments, identify the service outputs that those segments require, and match their offerings to provide value to each target segment.

Beyond the distinctions in the products they provide, there are structural differences among retailers that influence their strategies and results. One of the reasons the retail industry is so large and powerful is its diversity. For example, stores vary in size, in the kinds of services that are provided, in the assortment of merchandise they carry, and in their ownership and management structures.

As of December 2019, there were 63,000 grocery stores in the U.S. Micro grocery stores (which employ between one and four employees) and massive grocery stores (which employ more than 500 people) were the two largest groups, with about 20,000 stores in each category. [1]

A few stores are extremely large, having sales of $500,000 or more on a single day. In fact, on special sale days, some stores exceed $1 million in sales.

This diversity in size and earnings is reflected in the range of different ownership and management structures, discussed below.

Department Stores

Department stores are characterized by their very wide product mixes. That is, they carry many different types of merchandise, which may include hardware, clothing, and appliances. Each type of merchandise is typically displayed in a different section or department within the store. The depth of the product mix depends on the store, but department stores' primary distinction is the ability to provide a wide range of products within a single store. For example, people shopping at Hudson's Bay can buy clothing for a woman, a man, and children, as well as housewares, such as dishes and luggage.

Chain Stores

The 1920s saw the evolution of the chain store movement. Because chains were so large, they were able to buy a wide variety of merchandise at large quantity discounts. The discounts substantially lowered their cost compared to the costs of single-unit retailers. As a result, they could set retail prices that were lower than those of their small competitors and thereby increase their share of the market. Furthermore, chains were able to attract many customers because of their convenient locations, made possible by their financial resources and expertise in selecting locations.

Supermarkets

Supermarkets evolved in the 1920s and 1930s. For example, Piggly Wiggly Food Stores, founded by Clarence Saunders around 1920, introduced self-service and customer checkout counters. Supermarkets are large, self-service stores with central checkout facilities. They carry an extensive line of food items and often nonfood products.

1. Statista. (2022). Number of supermarkets and othe grocery stores int he United States from 2017 to 2019, by employment size. https://www.statista.com/statistics/459536/number-of-grocery-stores-by-employment-size-canada/

Supermarkets' entire approach to the distribution of food and household cleaning and maintenance products is to offer large assortments of these goods at each store at a minimal price.

Discount Retailers

Discount retailers, like Dollorama and Dollar Tree, are characterized by a focus on price as their main sales appeal. Merchandise assortments are generally broad and include both hard and soft goods, but assortments are typically limited to the most popular items, colours, and sizes. Traditional stores are usually large, self-service operations with long hours, free parking, and relatively simple fixtures. Online retailers such as Overstock.com have aggregated products and offered them at deep discounts. Generally, customers sacrifice having a reliable assortment of products to receive deep discounts on the available products.

Example: Dollar Store

Since this content was written, discount retailing in the USA has evolved dramatically. Whereas Walmart used to be seen as the ultimate purveyor of products for the American working class (and for quite a few other people), Dollar Store has now eclipsed Walmart in more rural and low-income areas. Watch the video from Wendover Productions (2023) for the full story:

Link to How Dollar Stores Quietly Consumed America

https://youtube.com/watch?v=vQpUV-2Jao%3Fsi%3DQ328eAvxD1sD9SZy

Warehouse Retailers

Warehouse retailers provide a bare-bones shopping experience at very low prices. Costco is the dominant warehouse retailer, with $138.4 billion in sales in 2018.[2] Warehouse retailers streamline all operational aspects of their business and pass on the efficiency savings to customers. Costco generally uses a cost-plus pricing structure and provides goods in wholesale quantities.

2. https://www.globenewswire.com/news-release/2018/10/04/1607991/0/en/Costco-Wholesale-Corporation-Reports-Fourth-Quarter-and-Fiscal-Year-2018-Operating-Results.html

Franchises

The franchise approach brings together national chains and local ownership. An owner purchases a franchise which gives her the right to use the firm's business model and brand for a set period of time. Often, the franchise agreement includes well-defined guidance for the owner, training, and ongoing support. The owner, or franchisee, builds and manages the local business. *Entrepreneur* magazine posts a list each year of the 500 top franchises according to an evaluation of financial strength and stability, growth rate, and size. The 2019 Top 500 Franchises list by Entrepreneur magazine is led by McDonald's, Dunkin' Donuts, Sonic Drive-In, Taco Bell, and the UPS Store.

Malls and Shopping Centers

Malls and shopping centers are successful because they provide customers with a wide assortment of products across many stores. If you want to buy a suit or a dress, a mall provides many alternatives in one location. *Malls* are larger centers that typically have one or more department stores as major tenants. *Strip malls* are a common string of stores along major traffic routes, while isolated locations are freestanding sites not necessarily in heavy traffic areas. Stores in isolated locations must use promotion or some other aspect of their marketing mix to attract shoppers.

Online Retailing

Online retailing is unquestionably a dominant force in the retail industry, but today it accounts for only a small percentage of total retail sales. Companies like Amazon and Geico complete all or most of their sales online. Many other online sales result from online sales from traditional retailers, such as purchases made at thebay.com. Online marketing plays a significant role in preparing the buyers who shop in stores. In a similar integrated approach, catalogs that are mailed to customers' homes drive online orders. In a survey on its website, Land's End found that 75 percent of customers who were making purchases had reviewed the catalog first.[3]

eMarketer Graph[4]

Catalog Retailing

Catalogs have long been used as a marketing device to drive phone and in-store sales. As online retailing began to grow, it had a significant impact on catalog sales. Many retailers who depended on catalog sales—LL Bean, The Hudson's Bay, and J.C. Penney, to name a few—suffered as online retailers and online sales from traditional retailers pulled convenience shoppers away from catalog sales. Catalog mailings peaked in 2009 and saw a significant decrease through 2012. In 2013, there was a small increase in catalog mailings. Industry experts note that catalogs are chang-

3. Ruiz, Rebecca R. "Catalogs, After Years of Decline, Are Revamped for Changing Times." The New York Times. The New York Times, January 25, 2015. http://www.nytimes.com/2015/01/26/business/media/catalogs-after-years-of-decline-are-revamped-for-changing-times.html.

4. Briggs. P. (2019, June 27). Canada e-commerce 2019. One in 10 retail dollars now transact digitally. /www.emarketer.com https://www.emarketer.com/content/canada-ecommerce-2019

ing, as is their role in the retail marketing process. Despite significant declines, U.S. households still receive 11.9 billion catalogs each year.[5]

Nonstore Retailing

Beyond those mentioned in the categories above, there's a wide range of traditional and innovative retailing approaches. Vending machines and point-of-sale kiosks have long been popular retail devices. Today they are becoming more targeted, such as companies selling easily forgotten items—such as small electronic devices and makeup items—to travelers in airports.

Each of these retailing approaches can be customized to meet the needs of the target buyer or combined to span a range of needs.

5. Geller, Lois. "Why Are Printed Catalogs Still Around?" Forbes. Forbes Magazine, October 16, 2012. http://www.forbes.com/sites/loisgeller/2012/10/16/why-are-printed-catalogs-still-around/.

Just when we have finally mastered the marketing mix that includes the four Ps, we arrive at the retail strategy. The retail marketing strategy includes all of the elements of the traditional marketing mix:

- Retailers buy **products** from producers or wholesalers that will most appeal to their target market.
- Retailers set a **price** that delivers value for the product and the complete shopping experience.
- Retailers **promote** their offerings, which include the shopping experience, products, pricing, and, broadly, the retail brand.
- Retailers create the right **place**, which is the point of purchase for the buyer.

In delivering the best retail experience through the right place, two additional Ps come into play: presentation and personnel.

Source: Lumen Learning. Retail Strategy, in Module 12. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-retail-strategy/

Presentation

Anthropologie stores have low density, emphasizing design elements that contribute to the creative-clothing and house-wares brand. Anthropologie Store. Authored by: FASTILY. Provided by: Wikimedia Commons. Located at: https://commons.wikimedia.org/wiki/File:Anthropologie_Walnut_Creek_2_2017-04-29.jpg. License: CC BY-SA: Attribution-ShareAlike

Think of a physical store where you enjoy shopping. What is it about the store that you like? You might like the way the store looks, feels, sounds, or smells. It might have products that draw you in and make you want to interact with them. You may just like the store because it's familiar and convenient—you know where to find the things you need. All of these descriptions fall into two categories. They refer either to the *atmosphere* or the *layout* of the store.

The atmosphere describes the feeling, tone, or mood of the store. Often, as a shopper, it is challenging to pinpoint exactly what creates a good shopping experience. (It is much easier in a bad shopping experience.) The store's decor plays a role in the atmosphere. Are the fixtures decorative or merely functional? Is the shopper invited to linger on a couch or an inviting chair, or is he encouraged to simply purchase and leave?

One important element of the atmosphere is density. How has the retailer packed elements into the space? Retailers manage the density of employees, fixtures, and merchandise. The shopping experience requires more employees

if there is a high need for service or information. High-end clothing sales generally provide a higher level of service, with sales associates available to advise on fit and fashion choices and to bring the shoppers different sizes and clothing options in the dressing room. A car purchase is not one that generally involves the same type or style of service, but there is a high need for information that translates to a higher density of sales employees to explain features, financing, and availability.

The density of merchandise and fixtures also significantly impacts the store's atmosphere. If the shopper's value service or the retail brand requires a high-end experience, then the retailer generally has less density of merchandise and fixtures. If the shopper most values service outputs of assortment and convenience, then the retailer will use a higher density of merchandise. For example, grocery shoppers may have different standards for the quality of fixtures they prefer relative to the price of the grocery items, but generally, they prefer a higher-density shopping experience. The shopper is trying to collect many different products from all areas of the store and would rather have shelves stacked than have to wander much farther through a store with more empty space. Convenience is the dominant factor driving the presentation of products.

The produce section is generally the first food area presented in a grocery store layout. Grocery Store. Authored by: Diane Webb. Provided by: Pexels. Located at: https://www.pexels.com/photo/grocery-store-piggly-wiggly-produce-small-town-1055443/. License: CC0: No Rights Reserved

Finally, the layout, display, and positioning of the merchandise have a significant impact on sales behaviours. Grocers have conducted studies to optimise the layout of the store and the position of items on the shelves. Stores are designed in a logical pattern so that they are easy to navigate and optimise spending. Higher-margin items are placed at eye level, while those that are inexpensive and commonly purchased are at the bottom of the shelf. The produce section was once the entry point for every grocery store. Today, that spot is more likely to be occupied by high-end novelty items (expensive chocolates, clothing, paper items, floral arrangements). Still, the produce section remains the first food section that buyers are directed toward. This is intended to facilitate meal planning before the shopper arrives at the meat and dairy departments.

In a retail environment, the layout is designed to create comfort and convenience while also driving sales.

Online Presentation

Moving the presentation to an online shopping experience can be even more difficult. Retail websites emphasise site design, navigation, information, and checkout experience. Amazon has set the standard for ease of purchase with its one-click checkout solution. Amazon is well-known for providing thorough and accurate product photos that offer a complete view of each product from every angle. Still, the online atmosphere is more difficult to differentiate from the traditional in-store experience.

Personnel

Retail employees are the face of the brand to the shopper. This is true of a sales associate who assists with a purchase decision, a waiter or waitress in a restaurant, a hotel check-in clerk, or a checker in a grocery store who efficiently rings up purchases. Retail employees play a pivotal role in the brand for two key reasons. First, they do work that has the potential to add immense value to the purchase process. When an employee is helpful and efficient with the selection and/or purchase of a product, it's an important and necessary aspect of the buyer's retail experience. The retail employees working directly with customers have a significantly more personal and profound impact on the brand experience of each shopper than senior executives or store managers, who have less direct customer contact.

In order to support employees to be successful, effective retailers will:

- Demonstrate care in hiring to ensure that customer-facing employees will represent the retailer's brand values
- Train employees to be knowledgeable about the products and efficient in their jobs
- Carefully manage operations so that staffing levels match the desired retail experience
- Compensate employees in a way that rewards good service and effective sales

Sales employees are most likely to have some variable compensation or have some portion of their paycheck tied to their ability to drive sales. These incentives can be a direct commission on sales or a less direct financial or benefits bonus for the store meeting its goals.

The following video illustrates how Costco, a retail giant, recognises the importance of treating its employees well to ensure consistently good customer service and a positive shopping experience.

Watch Success for Costco directly on YouTube by following the link.

https://youtu.be/P57mHjQzeKg?si=J6tdJMCtgosJc_IZ

You can view the transcript for "Success for CostCo" (opens in new window).

10.5 INTEGRATED SUPPLY CHAIN MANAGEMENT AND THE DISTRIBUTION STRATEGY

Learning Objectives

- Identify the components of a supply chain
- Define integrated supply chain management
- Explain the impact of the supply chain on the distribution strategy

Earlier in this module, we discussed the definition of the supply chain and the difference between the supply chain and marketing channels. As a reminder, the supply chain is a system of organizations, people, activities, information, and resources involved in moving a product or service from supplier to customer. Supply chain activities involve the transformation of natural resources, raw materials, and components into a finished product that is delivered to the end customer.[1]

The marketing channel generally focuses on how to increase value to the customer by having the right product in the right place at the right price at the moment the customer wants to buy. The emphasis is on providing value to the customer, and the marketing objectives usually focus on what is needed to deliver that value.

The primary differences between the two are the following:

1. The supply chain is broader than marketing channels.
2. Marketing channels are purely customer-facing, while the supply chain encompasses internal objectives as well.
3. Marketing channels are one part of the marketing mix that must be balanced with product, price, and promotion.

In this section, we are going to get into the supply chain in more detail. Our goal here is to understand the contributions of integrated supply chain management in order to be able to create a more effective distribution strategy.

1. Nagurney, Anna (2006). Supply Chain Network Economics: Dynamics of Prices, Flows, and Profits. Cheltenham, UK: Edward Elgar. ISBN 1-84542-916-8.

Learning Activities

- Reading: Components of a Supply Chain
- Reading: Integrated Supply Chain Management
- Reading: Supply Chain and Channel Strategy
- Self Check: Integrated Supply Chain Management and the Distribution Strategy

The interconnected teams and organisations that comprise the supply chain provide a range of different functions. The supply chain for every organisation is different. In fact, each product can have different supply chain needs and challenges, resulting in distinct players. In general, the supply chain spans a fairly common set of functions that are accomplished in very different ways.

Sourcing and Procurement

Sourcing is the process of finding, evaluating, and engaging suppliers to provide goods and services to a business. *Procurement* is the process of purchasing goods and services. In a B2B sale, the procurement function typically manages *both* sourcing and procurement.

In the earliest days of the automobile, Henry Ford decided to own or control the full supply chain—from the mines that provided the ore to the factories that made the glass. Raw materials—iron ore, coal, and rubber, all from Ford-owned mines and plantations—came in through one set of gates at the plant while finished cars rolled out the other.[1] Today it is exceptionally rare for a company to try to own all the raw materials for a physical product. Even software products use preexisting software frameworks and code.

Businesses have demonstrated success in managing external suppliers and have found it beneficial to source some materials and services, allowing them to focus on particular areas of specialisation. A business may choose to source raw materials that it does not own. It may also choose to outsource services that it could do itself, but has found it advantageous to source externally. Outsourcing is the process of contracting out a business process to another party.[2]

When sourcing a product or service, businesses typically conduct a thorough analysis of their needs, evaluating material requirements, service requirements, and financial requirements. Next, the company will research potential suppliers, understanding what offerings exist in the market and how well they align with the company's requirements. Often companies select suppliers based on existing relationships or on the results of the analysis they have done. At other times, the company may decide to go to a competitive bid and solicit proposals from several firms (Government entities are usually required to go through a public bidding process).

Whether it is through a formal bid process or through another market analysis, the supply chain team will analyse the capabilities of potential suppliers and craft a sourcing strategy. The company may prefer to build a deep relationship with a single supplier or work with multiple suppliers to benefit from different capabilities or reduce the risk of dependency. Then the team will negotiate contracts with the suppliers that align with the business needs.

Hewlett-Packard (HP) developed a framework for evaluating and managing suppliers called the TQRDC framework. Supplier contracts and evaluations addressed five factors: technology, quality, responsiveness, delivery, and cost. By negotiating supplier contracts with clearly defined goals and commitments for each of the five areas and eval-

1. National Science Foundation [NSF]. (n.d.) *Manufacturing: the forms of things unknown*. https://www.nsf.gov/about/history/nsf0050/pdf/manufacturing.pdf

2. Oxford English Dictionary (3rd ed.). Oxford University Press. September 2005.

uating performance over time, HP was able to engage more collaboratively with its suppliers to improve processes, relationships, and results continuously.[3]

Demand Planning, Order Fulfilment, and Inventory

Demand planning begins early in the new-product development process to develop the business case; however, as the product reaches the market, the accuracy of the demand forecast becomes increasingly important.

The supply chain organisation contracts with suppliers to meet the projected demand. If the forecast is too high, the company not only loses revenue but may also incur costs for products that are never sold. If the marketer projects demand too low, then the company cannot fulfil orders, resulting in product shortages. This also results in lost revenue and negatively impacts the shopping experience of buyers. It's difficult to forecast demand and get it just right.

Supply chain management can help with the forecasting and fulfilment process. If suppliers have visibility into the company's forecast and sales data, they can react immediately when demand is high or low. Otherwise, suppliers will continue to produce and deliver at a level that is not aligned with the latest sales data or the revised forecasts. They will either be building or depleting inventory.

Inventory is an asset that is intended to be sold in the ordinary course of business. Inventory may not be immediately ready for sale and can fall into one of the following three categories:

- Be held for sale in the ordinary course of business
- Be in the process of being produced for sale
- Be materials or supplies intended for consumption in the production process[4]

3. http://www.bmpcoe.org/bestpractices/pdf/hp.pdf

4. http://www.accountingtools.com/dictionary-inventory

Source: Lumen Learning. Components of a Supply Chain, in Module 12. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/outcome-components-of-a-supply-chain/

When managing the supply chain, many businesses opt for a just-in-time (JIT) inventory management approach. This means that the company will maintain very little inventory on hand at each stage of the supply chain. Let's revisit a real example to see why this might be a good idea.

In our Monster Beverage channel example, we can see the product flow in the column on the left. If the manufacturer produces enough concentrate for the production of 100,000 Monster Beverages each week and sends them off with the transportation company, then over time, 100,000 beverages will be available to consumers each week. What if consumers only demand 40,000 beverages each week? Initially, there will be an extra 60,000 beverages in supermarkets, but they will quickly reduce their purchases to match demand. Next, the extra inventory is likely to build up with the bottlers, and lastly, in the warehouse. The manufacturer could overproduce for several weeks or more before realising that there is too much product and inventory.

If Monster uses a JIT inventory process, then new orders from the manufacturer will only be generated as stock is pulled from the warehouse, because the bottler requires it to fulfill orders from the supermarket. Each of the organisations in the supply chain will know when demand is slowing or growing and will be able to react more quickly to changes in demand.

Warehousing and Transportation

In the global economy, it is a significant challenge to transport and store commercial products. The supply-chain and logistics firm MWPLV International completed a comprehensive analysis of Walmart's distribution network and found the following:

- Walmart and Sam's Club distribution centres total 124.2 million square feet. If airlifted to Manhattan, they would cover nearly 19 per cent of the total borough of Manhattan.
- Approximately 81 per cent of the merchandise sold at Walmart is shipped through Walmart's distribution network. The balance is serviced through direct store delivery, in which the manufacturer ships directly to the store.
- 42 regional distribution centres are 1.0–1.5 million square feet. Each has a mechanised conveyor system that sorts products to the correct loading dock for shipment. Each regional centre employs around 1,000 employees.
- The regional distribution centres are, on average, 124 miles from the Walmart stores that they serve.

A distribution centre is a warehouse or storage facility where the emphasis is on processing and moving goods to wholesalers, retailers, or consumers. As we see from the Walmart distribution network, warehouses are not only storage facilities. They are increasingly equipped with technology systems that support the efficient counting, management, and transportation of goods. In the warehousing and transportation process, the goal is to efficiently move the right product to the location where a customer will purchase it.

How are all of these products tracked? Each product has a unique identifier called a stock-keeping unit (SKU). The SKU is scanned and tracked at each step in the process from receiving, through storage, to retrieval and shipping. Once loaded onto the truck, the entire order is sent between the warehouse, the shipper, and the receiving company using another data format called Electronic Data Interchange (EDI). EDI allows the trucking company to know exactly what it is shipping, and it gives the sending and receiving companies detailed, real-time tracking and status reports.

Amazon's One-Day Delivery

You can view Amazon's delivery process in the video below. Note that at 10:47, the video shifts to discuss the working conditions in Amazon's fulfilment warehouses.

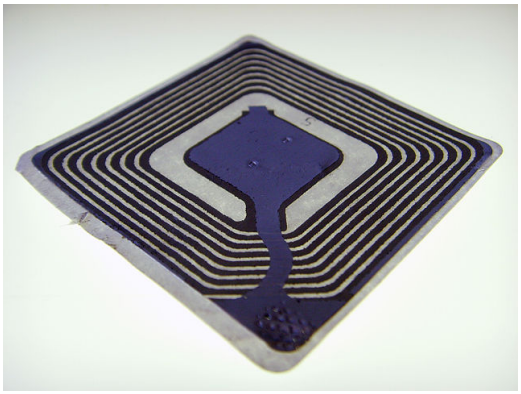
One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=578#oembed-1

You can view the transcript for "How Amazon Delivers On One-Day Shipping" here (opens in new window).

Logistics and Information Management

The physical movement of goods is called logistics, and as you can guess, it is a staggeringly complex and important function. Imagine trying to keep track of all of this information—from the initial order forecast to production, warehousing, and transportation. It's obviously not a job that a human, or even a team of humans, could easily do on a large scale. As global supply chains have grown more complex, businesses have created systems to manage and optimise their supply chains. In 2019, the market for supply chain management software exceeded $15 billion. [5]. Put simply, companies are buying expensive systems to help manage the complexity of the supply chain.

Have you ever tracked a package that you were sending or receiving and seen its progress through the supply chain? This is achieved using track-and-trace software that monitors the progress of physical goods through the supply chain process, typically using a radio-frequency identification (RFID) tag. Radio-frequency identification (RFID) utilises electromagnetic fields to identify and track tags attached to objects automatically. The tags contain electronically stored information. Passive tags collect energy from a nearby RFID reader's interrogating radio waves. RFID tags are used in many industries. For example, an RFID tag attached to an automobile during production can be used to track its progress through the assembly line, and RFID-tagged pharmaceuticals can be tracked through warehouses during the supply chain process.



An RFID tag allows interested parties to track the location of packages in transit. Radio-Frequency Identification. Provided by: Wikipedia. Located at: https://en.wikipedia.org/wiki/Radio-frequency_identification. License: CC BY-SA: Attribution-ShareAlike

Information throughout the supply chain process is captured in systems that allow supply chain professionals to analyse results and identify improvements that will lead to more reliable, faster, and less expensive delivery to customers throughout the supply chain.

5. McCrea, B. (2020, September 4). *The Continuing Convergence of the Public Cloud and Supply Chain Management Software*. Supply Chain 247. https://www.supplychain247.com/article/the_continuing_convergence_of_the_cloud_and_supply_chain_software.

As the importance of managing the supply chain well has increased, companies have acknowledged that they must manage the supply chain as a complete system and treat it as an integrated function. When an organization takes an integrated approach, it is recognizing that it cannot manage each part of the supply chain as an independent function, but instead needs to understand and manage the connections and interdependencies.

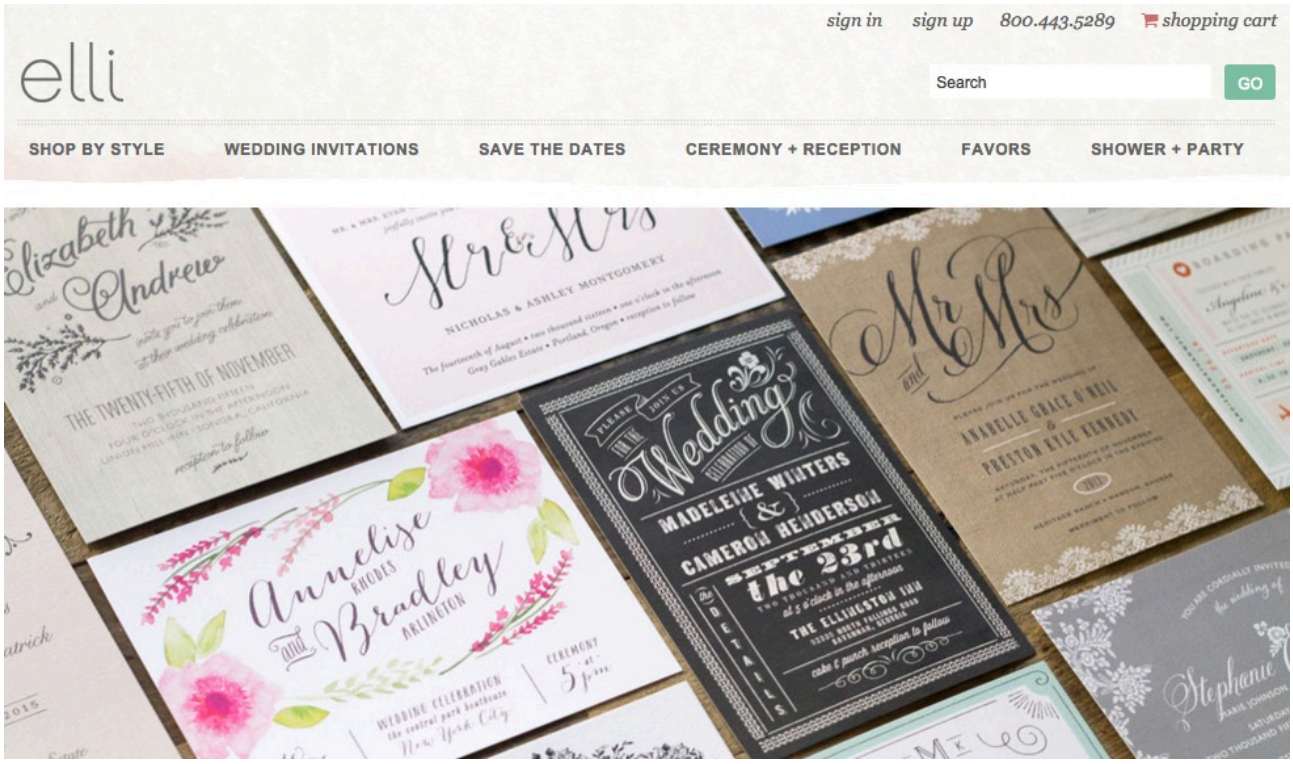
Within the supply chain organization, this means that sourcing, demand planning, inventory planning, warehousing, logistics, and order-fulfillment functions must work together. The rise of supply chain software tools that bring this data and information together in one place is just one indicator of an increasingly integrated focus. Also, many organizations previously had these functions spread between different organizations with little opportunity to interact. Today, most large organizations have an integrated supply chain function with a common management team and common objectives.

Beyond the work occurring within the supply chain organization, there are important connections to marketing, finance, and manufacturing. Marketing plays a direct role in creating the demand forecast and defining the product and delivery expectations for customers. These must be reviewed with the supply chain team so that everyone knows what needs to be achieved, and when that isn't possible, adjustments can be made and communicated to customers early. The integration with finance is necessary to ensure that investments are budgeted correctly and inventory is accounted for accurately. Manufacturing is often most heavily affected by decisions and requirements of the supply chain team, as they are counting on having an adequate supply and must meet delivery timelines to keep customer commitments.

As with many complex organizational challenges, this integration works best when there are clear objectives that are set across the organizations, a common view of the data (which identify opportunities for improved performance), and clear, frequent communication about potential issues and needs. This enables all of the organizations to focus on delivering value to customers and achieving the company mission.

Let's examine an example where the supply chain is crucial to a successful channel strategy that delivers the right value to customers.

Elli.com is an online retailer that sells customised wedding materials to brides. Elli specialises in paper products that are unique and beautifully designed, and it coordinates a complete look for a bride from her first wedding announcement to her final thank-you note.



Screenshot Elli Web Site. Provided by: Lumen Learning. License: CC BY: Attribution

In crafting its channel strategy, Elli focused on what it does best: providing a beautiful product to brides with an exceptional service experience. Elli is also a small company that did not want to use its funding to build capability in areas that others could do better and less expensively.

The table below shows the components of the channel strategy and the supply chain decisions the company made to provide unique value to its customers.

Components of Channel Strategy and Supply Chain Decision

	Channel Strategy	Supply Chain Decision
Channel Structure	Sell directly to the consumer. Brides are nervous about making every detail perfect. If Elli manages all interactions with the brides, the team can provide meticulous, reassuring service, reducing risk to customer relationships.	Do not engage wholesale or retail partners.
Sourcing	Elli does not create designs. The company works with a network of designers who submit design concepts. The Elli creative team reviews the designs and offers to resell those they believe Elli brides will love.	Outsource design work. The network of designers to ensure a continual stream of designs that match standards. Designers provide designs to Elli for ma
Order Fulfillment	Every Elli order is a custom product that is printed or created for an individual bride. When a bride places an order, an Elli staff member personally confirms that order and creates a digital proof of the print item for the bride's approval.	Elli does not outsource any communication with b
Manufacturing	Once the proof is approved, the staff member sends the order to an external print service that prints, packages, and ships the order to the bride. The Elli staff member monitors the timeline for printing and shipping and addresses questions from the printer.	Elli has contracted with a local printer. The print p selected to ensure that the printing time, quality, a match Elli's expectations for its customers. By usin company can regularly check the quality of orders.
Shipping	Elli determined that a national shipping partner could get the orders to the brides most quickly and efficiently.	Elli uses a single national shipper. The shipping inf into Elli's customer database, providing staff with r information on each order.
Issue Resolution	Because Elli owns the relationships with brides, designers, printers, and shippers, the company can resolve all issues from a single point of contact.	Elli team members own different supply chain relat regularly reviews the supply chain performance and on how the partnerships and performance can be i

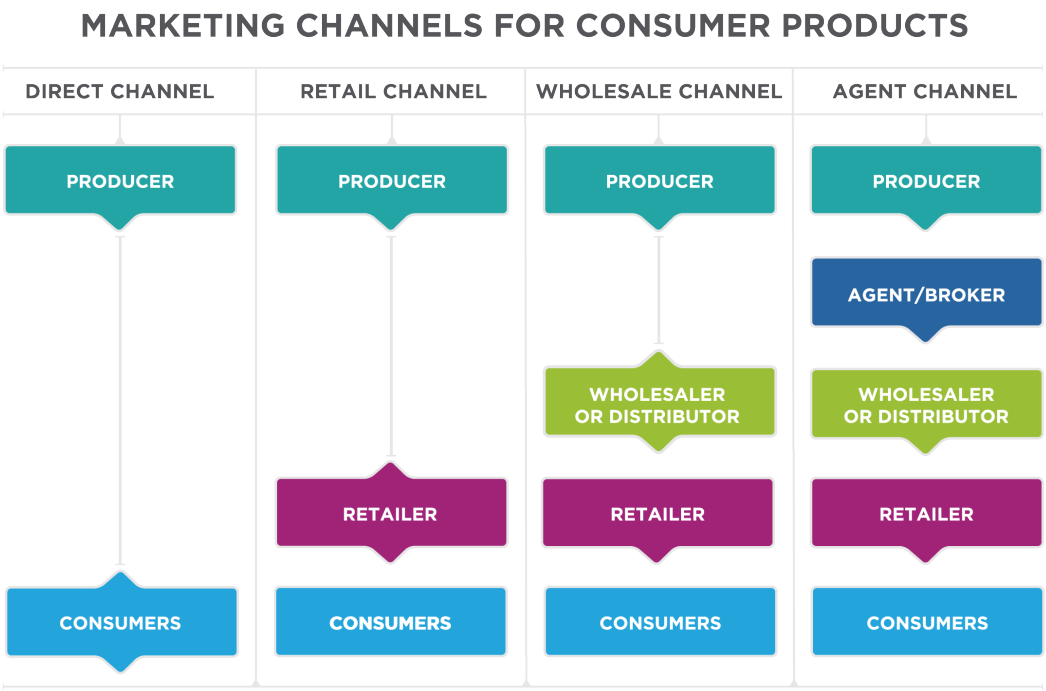
Source: Lumen Learning. Supply Chain and Channel Strategy, in Module 12. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-supply-chain-and-channel-strategy/

The Elli approach appears to utilise a range of internal capabilities and external channel partners to create a customer experience that leaves brides satisfied. As you look at Elli's approach, where is the risk in the distribution strategy? In which areas might issues arise as Elli grows?

10.6 PUTTING IT TOGETHER: PLACE: DISTRIBUTION CHANNELS

Let's return to our earlier example of Whole Foods' and Trader Joe's distribution strategies now that we understand much more about marketing channels and supply chains. Whole Foods and Trader Joe's use very different approaches to source their products, place stores, and get the products to the stores. Both companies have developed these strategies because of their missions and their focus on delivering value to target customers. Is one of the distribution strategies better than the other, or are they both using successful but different strategies?

Marketing Channels



Source: Lumen Learning. Distribution Channels, in Module 12. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/putting-it-together-distribution-channels/

Both companies use the retail channel and deal directly with suppliers.

In the case of fruits and vegetables, Whole Foods has buying relationships with local farmers (producers) who supply the store with seasonal produce. Thus, if one farmer is unable to produce a sufficient amount of yellow corn or heirloom tomatoes, the shortfall can be made up by another farmer. Although challenging to perfect, these short supply chains are agile and difficult for other big retailers to duplicate.

Trader Joe's also buys directly from producers. It offers manufacturers detailed specifications for new products along with the price it will pay, but then it leaves it up to the vendors to create innovative high-quality items. In

return, Trader Joe's expects a high level of secrecy from its suppliers, even going so far as to force them to not publicly acknowledge their business relationship. Trader Joe's does this because it doesn't want other vendors, customers, or competitors to know where it gets its products. In most cases, vendors agree to this cloak of secrecy because they are typically producing a lower-cost version of a product for Trader Joe's than for their other customers, and they do not want to create pricing pressure with other customers by disclosing this.

Sourcing

Whole Foods emphasizes the quality of its products, requiring that stores must not stock products with artificial flavors, preservatives, colours, sweeteners, or hydrogenated oils.[1] Due to this focus on quality, customers pay a premium for Whole Foods' one-of-a-kind produce selection and quality. Because of its high prices, Whole Foods has been dubbed "Whole Paycheck." Nonetheless, loyal customers are happy to pay them. Whole Foods does not compete with other grocers on price and has no intention of ever competing in that arena. And since many of its products cannot be found anywhere else, Whole Foods exerts enormous leverage in terms of its pricing power. Furthermore, Whole Foods filters its product offerings and only carries pure, unadulterated foods. This is a strong differentiator, which adds value from the customer's perspective. Historically, Whole Foods has been able to sell this high-quality merchandise at a price that provides strong profits, in spite of the higher costs.

Trader Joe's manages its supply chain by relying on its successful private-label brands. Eighty percent of Trader Joe's products are developed either in-house or are created by suppliers exclusively for Trader Joe's; average stores carry only 16 percent local products. This strategy allows Trader Joe's to differentiate from its competitors and reduce its marketing costs, and selling its own in-house brands reduces the number of SKUs in its stores. This collapses the number of supplier relationships and leads to a more efficient and controllable supply chain.[2]

Distribution Networks and Inventory Management

As Whole Foods has increased the number of retail centers it operates, it has suffered growing pains in efficiently managing the distribution of products to its stores. The chain is growing at such a fast rate that it struggles to keep up with demand for products and keep shelves stocked. The single biggest reason for inefficiency is Whole Foods' almost completely decentralized back end. It has twelve geographic divisions, a national headquarters in Austin, regional distribution centers, bakery facilities, kitchens, seafood processing facilities, meat and produce procurement centers, and a specialty coffee/tea procurement operation.[3] Each geographic division has its own office, regional president, and oversees its own store network. Many outsiders scoff at its supply chain and consider it amateurish and lacking in professionalism. But with the ample margins that Whole Foods commands for its products, it doesn't face immediate pressure to improve efficiencies.

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1. "Quality Standards." Whole Foods Market. March 04, 2019. Accessed March 04, 2019. https://www.wholefoodsmarket.com/quality-standards.

2. Lutz, Ashley. "How Trader Joe's Sells Twice As Much As Whole Foods." Business Insider. October 07, 2014. Accessed March 04, 2019. http://www.businessinsider.com/trader-joes-sales-strategy-2014-10.

3. Whole Foods Market Annual Report (2009), pg. 10

The stores operate under minimal governance and are given maximum freedom to source a product mix that is appropriate for their location. Whole Foods stores operate under the premise that they need these freedoms to meet the unique buying needs of its local customers. The only governing rule put in place by the corporate office is that stores must not stock products with artificial flavors, preservatives, colours, sweeteners, or hydrogenated oils. A downside to this local purchasing policy is that consistency is compromised across the chain. Every retail location carries a variety of products that distinguishes it from other stores in the same chain. Not surprisingly, it is difficult to achieve economies of scale.

Trader Joe's manages its distribution networks by minimizing the number of hands that touch the product, thereby reducing costs and making products quickly available to their customers. You'll recall that Trader Joe's orders directly from the manufacturer. The manufacturer, in turn, is responsible for bringing the product to a Trader Joe's distribution center. At the distribution center, trucks leave on daily resupply trips to local stores. Because of the average store's small size, there is little room for excess inventory, and orders from distribution centers need to be incredibly accurate.

Trader Joe's primary success factor has been its inventory-sourcing and pricing model: it limits its stock to specialty products that it can sell at very low prices. This is accomplished by purchasing large quantities of specialty goods (that do not interest conventional supermarkets), thereby securing low prices. Customers are able to purchase unique products that guarantee value. This strategy also means that customers buy more because Trader Joe's sells twice as much per square foot compared to other supermarkets. It achieves these quantities by focusing on a smaller range of products—typically carrying around 2,000 SKUs, whereas the typical grocery store carries upwards of 30,000.[4] This small figure is likely exacerbated by the size of the store (one-third the square footage of an average supermarket) and cramped aisles.

The Results

Whole Foods' stock price has declined sharply since February 2015, while Trader Joe's continues to thrive. Lower-cost competitors like Walmart and Kroger's saw Whole Foods' high prices and margins and have been able to add high-quality organic products to their offerings at a lower price because of supply chain and distribution efficiencies. In other words, Whole Foods' sourcing strategy, once thought to be a sustainable competitive advantage, can in fact be replicated more efficiently by competitors. The press coverage of some of the challenges is highlighted below:

> Whole Foods Market Inc., which has long given its local managers and regional bosses broad discretion over everything from buying cheese to store design, is whittling away at some of that autonomy in an effort to reduce costs and boost its clout with suppliers.
>
> As stiffer competition erodes its profit growth, the natural and organic foods retailer is tweaking its management style by centralizing and streamlining some functions. The changes could be risky for the company as it tries to wring more efficiency from its stores without sacrificing the local flavor and specialty offerings that have been a cornerstone of its success.
>
> Whole Foods is shifting more responsibility for buying packaged foods, detergents, and other nonperishable items

4. Kowitt, Beth. (2010, August 3). *Inside the Secret World of Trader Joe's.* Fortune Magazine. https://archive.fortune.com/2010/08/20/news/companies/inside_trader_joes_full_version.fortune/index.htm

for the more than 430 stores to its Austin, Texas, headquarters. It is deploying software to simplify labor-intensive tasks like scheduling staff and replenishing shelves.[5]

In the meantime, Trader Joe's continues to lead the industry in sales per square foot and has carefully accelerated the addition of new stores. The graph below shows sales per square foot and new store openings for both chains and their competitors.

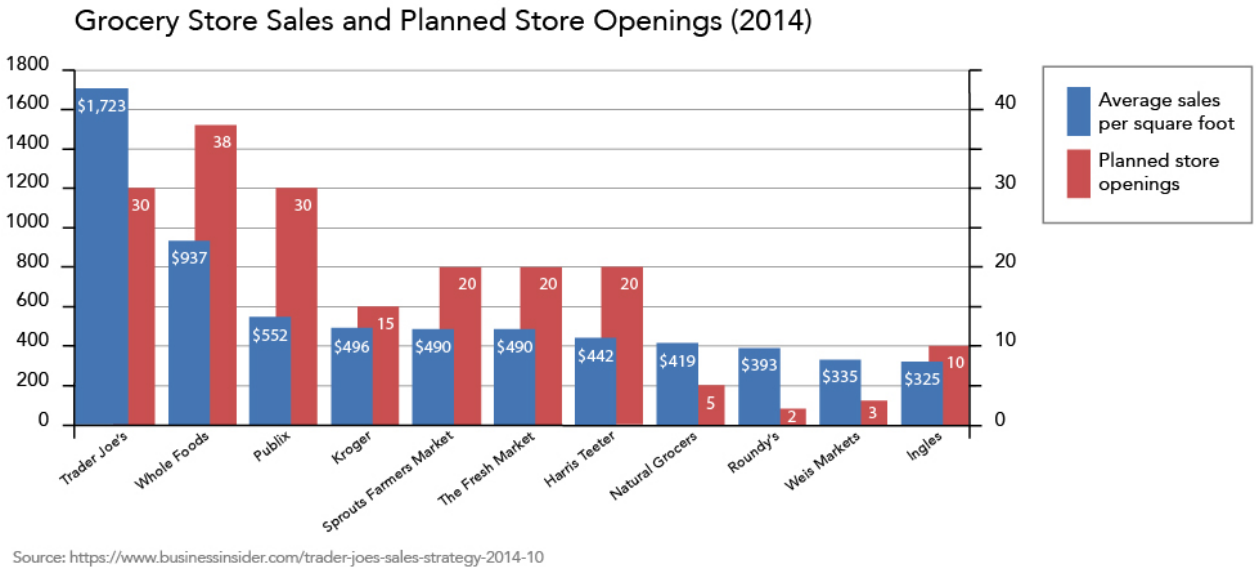


Figure 1. USA Grocery Store Sales and Planned Store Openings (2014). Source: Lumen Learning. Distribution Channels, in Module 12. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/putting-it-together-distribution-channels/

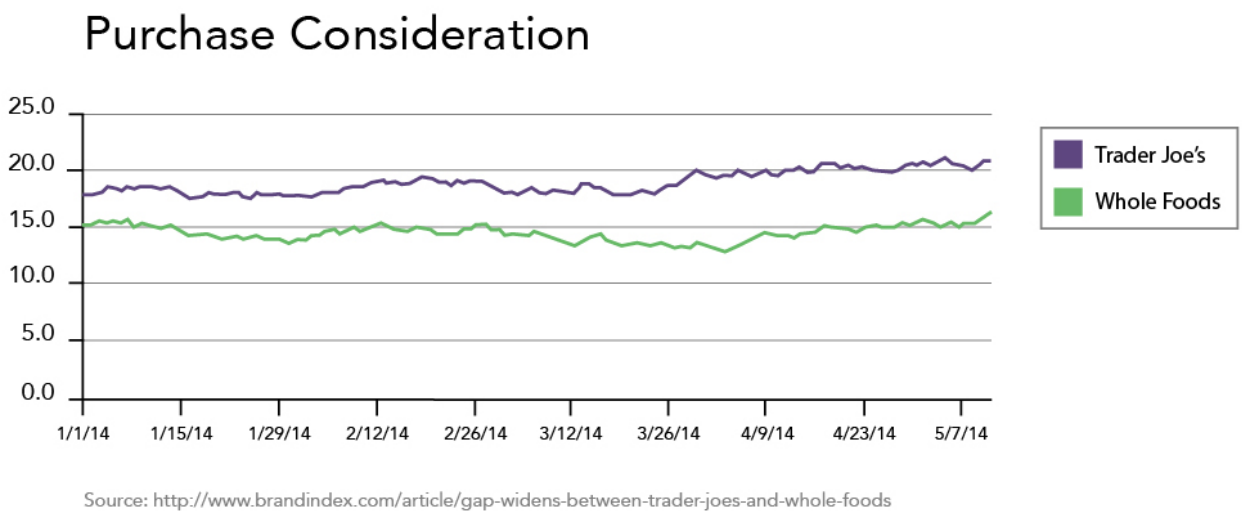
5. Brat, Ilan. "Whole Foods Works to Reduce Costs and Boost Clout with Suppliers." The Wall Street Journal. February 14, 2016. Accessed September 16, 2019. https://www.wsj.com/articles/whole-foods-works-to-reduce-costs-and-boost-clout-with-suppliers-1455445803

Grocery Store Sales and Planned Store Openings (2014)

Grocery Store	Average sales per square foot	Planned store openings
Trader Joe's	$1,723	30
Whole Foods	$937	38
Publix	$552	30
Kroger	$496	15
Sprouts Farmers Market	$490	20
The Fresh Market	$490	20
Harris Teeter	$442	20
Natural Grocers	$419	5
Roundy's	$393	2
Weis Markets	$335	3
Ingles	$325	10

Source: Lumen Learning. Distribution Channels, in Module 12. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/putting-it-together-distribution-channels/

When consumers are asked, "When you are next in the market to purchase products in this specific category, from which of the following would you consider purchasing?" many more consumers turn to Trader Joe's than Whole Foods. The graph below charts consumer responses to this question.



Source: Lumen Learning. Distribution Channels, in Module 12. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/putting-it-together-distribution-channels/

Trader Joe's emphasis on sustained differentiation in its sourcing and a highly efficient supply chain and distribution network has proven to be the winning combination. Whole Foods is now trying to replicate that, but with intense competitive pressure and industry scrutiny.

CHAPTER 11: PRICING STRATEGIES

Learning Objectives

- Understand why pricing strategies matter
- Discuss how price affects the value of the organization's products or services
- Explain the primary factors to consider in pricing
- Compare common pricing strategies
- Explain price elasticity and how it can be used to set price
- Explain the use of competitive bidding for B2B pricing

11.1 WHY IT MATTERS: PRICING STRATEGIES

Why use pricing strategies to enhance marketing of products and services?

When Amazon.com was created in 1994, the company sold books online. While many viewed it as a real threat to traditional bookstores, few, other than its founder and CEO, Jeff Bezos, imagined what the company would become. Today the services that Amazon offers are extensive, and many of them center on a quiet service membership called Amazon Prime. The following video shows the impact of this offering on one American family.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=490#oembed-1

You can view the transcript for "Amazon Prime" (opens in new window).

What is Amazon Prime? When Amazon launched the product in 2005, it included free two-day shipping for most orders, and it was priced as an annual $79 membership fee. At the time, analysts wondered how Amazon could justify the value to customers (implying that it was too expensive) and, at the same time, how it could afford to keep offering the service if demand should grow (implying that it was too cheap to cover costs).

Greg Greeley, the vice president of Amazon Prime Global, reflected on the company's decision and told the *Washington Post,*

> *We have always thought of it as the best bargain in shopping—Jeff [Bezos] went on record again saying that—in 2005 when we launched it with unlimited two-day shipping on 1 million items. But we did not think of it as a shipping program, but as a convenience program.*
>
> *Prime introduced three concepts. It had two-day shipping at a time when people expected to pay for shipping and still not get their items for four to seven business days. It was very predictable: We put it on the Web site that if you ordered in the next 3 hours and 20 min., for example, you could have it in two days. And it was an unlimited, single membership fee that made fast delivery an everyday experience instead of an occasional indulgence.*[1]

Was the initial $79 price too low? Too high? Does it really matter that much?

After 2005, Amazon began adding services to the Prime membership without raising the price. Today the service includes unlimited video streaming, unlimited music streaming, $5.99 flat-fee shipping on discounted household items, access to a Kindle lending library and a host of others services. In spite of increased services, Amazon held pricing flat at $79 per year. In 2013, Amazon admitted that by simply adjusting the 2005 price for inflation, transportation, and fuel costs, the price would be more than $100 today.

1. Tsukayama, H. (2015, February 03). *What Amazon's learned from a decade of Prime.* The Washington Post. https://www.washingtonpost.com/news/the-switch/wp/2015/02/03/what-amazons-learned-from-a-decade-of-prime/

Finally, in January 2014 Amazon told its customers to expect a price increase of $40 for Amazon Prime memberships, which would make the new price $119. In March 2014, the company announced the actual price increase: a $20 increase, or annual price of $99. While there were some disgruntled customers, the majority accepted the increase without complaint.

While Amazon doesn't share its usage or financial data for Amazon Prime, analysts have completed customer surveys, analyzed Internet traffic, and reviewed enough detailed financial data to support the following:

- Amazon loses at least $1 billion annually on Prime-related shipping expenses
- Amazon spent $1.3 billion into Prime Instant Video in 2014, over and above the shipping costs
- Amazon Prime has between 40 and 50 million subscribers
- Prime members spend an average of $538 annually with Amazon, far more than the $320 by non-Prime members[2]

Is it strategic genius or terrible folly for Amazon to lose billions of dollars a year on Amazon Prime on account of its pricing? Is Amazon actually losing money on Prime, or is Prime bringing in enough other sales to cover its costs . . . and more?

Choosing a price is as easy as picking a random number. As you'll discover in this module, however, finding the right price to achieve company objectives and provide sustained value to customers is much more complicated.

2. Mangalindan, J. P. (2015, February 3). *Inside Amazon Prime*. Fortune. http://fortune.com/2015/02/03/inside-amazon-prime/

11.2 PRICING IMPACT ON VALUE OF PRODUCTS OR SERVICES

Learning Objectives

- Describe the customer view of value and pricing
- Discuss psychological factors in pricing
- Discuss how price affects the value of an organization's products or services

Price determines how much revenue a company is going to earn. It determines whether the business is covering the costs to create and deliver its products. Price drives the financial health of the business.

In out initial discussion of pricing, we'll start with the perspective of the customer. If the customer doesn't see value in the product offering—and that includes pricing—company objectives won't be met. Customer perceptions of value must be the central consideration in the pricing process.

The specific things you'll learn in this section include:

Learning Activities

- Reading: Demonstrating Customer Value
- Reading: The Psychology of Pricing
- Video: Value in Branded Eyewear
- Self Check: Pricing Impact on Value of Products or Services

Introduction

Rent the Runway is a company that lets customers borrow expensive designer dresses for a short time at a low price—to wear on a special occasion, e.g.— and then send them back. A customer can rent a Theia gown that retails for $995 for four days for the price of $150. Or, they can rent a gown from Laundry by Shelli Segal that retails for $325 for the price of $100. The company offers a 20 percent discount to first-time buyers and offers a "free second size" option to ensure that customers get the right fit.

Do the customers get a bargain when they are able to wear a designer dress for a special occasion at 15 percent of the retail price? Does the retail price matter to customers in determining value, or are they only considering the style and price they will pay for the rental?

What does value really mean in the pricing equation?

The Customer's View of Price

Whether a customer is the ultimate user of the finished product or a business that purchases components of the finished product, the customer seeks to satisfy a need through the purchase of a particular product. The customer uses several criteria to decide how much they are willing to spend in order to satisfy that need. Their preference is to pay as little as possible.

In order to increase value, the business can either increase the **perceived benefits** or reduce the **perceived costs**. Both are important aspects of price. If you buy a Louis Vuitton bag for $600, in return for this high price you perceive that you are getting a beautifully designed, well-made bag that will last for decades—in other words, the value is high enough for you that it can offset the cost. On the other hand, when you buy a parking pass to park in a campus lot, you are buying the convenience of a parking place close to your classes. Both of these purchases provide value at some cost. The perceived benefits are directly related to the price-value equation; some of the possible benefits are status, convenience, the deal, brand, quality, choice, and so forth. Some of these benefits tend to go hand in hand. For instance, a Mercedes Benz E750 is a very high-status brand name, and buyers expect superb quality to be part of the value equation (which makes it worth the $100,000 price tag). In other cases, there are tradeoffs between benefits. Someone living in an isolated mountain community might prefer to pay a lot more for groceries at a local store than drive sixty kilometers to the nearest Sobeys. That person is willing to sacrifice the benefit of choice for the benefit of greater convenience.

When we talk about increasing perceived benefits, we refer to this as increasing the "value added." Identifying and increasing the value-added elements of a product is an important marketing strategy. In our initial example, Rent

the Runway is providing dresses for special occasions. The price for the dress is reduced because the customer must give it back, but there are many value-added elements that keep the price relatively high, such as the broad selection of current styles and the option of trying a second size at no additional cost. In a very competitive marketplace, the value-added elements become increasingly important, as marketers use them to differentiate the product from other similar offerings.

Perceived costs include the actual dollar amount printed on the product, plus a host of additional factors. If you learn that a gas station is selling gas for 25 cents less per gallon than your local station, will you automatically buy from the lower-priced gas station? That depends. You will consider a range of other issues. How far do you have to drive to get there? Is it an easy drive or a drive-through traffic? Are there long lines that will increase the time it takes to fill your tank? Is the low-cost fuel the grade or brand that you prefer? Inconvenience, poor service, and limited choice are all possible perceived costs. Other common perceived costs are the risk of making a mistake, related costs, lost opportunity, and unexpected consequences, to name but a few.

Viewing price from the customer's point of view pays off in many ways. Most notably, it helps define value–the most important basis for creating a competitive advantage.

You will notice that when we discussed the value equation in the previous reading, we referred to *perceived benefits* and *perceived costs*, rather than absolute/actual benefits and costs. Every customer perceives benefits and costs differently, and many of these perceptions aren't even conscious. There are very few buying decisions in which a customer meticulously lists and weighs the benefits and costs in order to determine value. More often than not, the buying process involves snap judgments and decisions, and psychological factors likely come into play.

Despite tremendous advances in brain research, the factors involved in perception and decision-making are still not well understood. We do know that perception is highly individual and complex. If you, as a marketer, are trying to understand how consumers perceive something abstract like the "value" or "benefit" of a product, it's important to know that there is certainly a psychological dimension to that perception, but there isn't a scientific formula that can give you all the answers or accurately predict whether someone will buy. Still, you can avail yourself of the interesting work that has been done in this field and be aware of some of the factors that *might* affect buying decisions.

Studies of Psychology in Pricing

Most of our understanding of the psychology of pricing comes from research studies that explore buyer behavior.

The Case for the Number Nine

Many studies show that customers are more likely to buy products whose price points end in the number nine. That is, they prefer products that cost $99 over identical items priced at $100. Somehow the brain perceives greater value from a small price change that ends in nine.

A study in the journal *Quantitative Marketing and Economics* validates the benefit of using nines in pricing—with a few important qualifiers, noted below. The study compared purchases of women's clothing discounted to $35 and the same clothing discounted to $39. The study found that 24 percent more consumers purchased when the clothing was priced at $39, even though the price was higher.

The study found that if a product has been available at a different price for a long time, then changing the price to end in nine will have a smaller effect than if it's a new product that starts out with a price that ends in nine. It also found that if a product is marked "on sale," the nine will have a small impact.

The researchers conclude that the nine has more power in situations where the buyer has limited information. If there is enough information for the customer to suspect that the nine is being used to manipulate the sales decisions, the customer is less likely to buy.[1]

Providing Pricing Options

Anchoring is a cognitive bias that describes the common human tendency to rely too heavily on the first piece of

1. Anderson, E. T. & Simester, D. I. (2003). Effects of $9 price endings on retail sales: Evidence from field experiments. *Quantitative Marketing and Economics*, 1(1) 93–110.

information offered (the "anchor") when making decisions. During decision making, anchoring occurs when individuals use an initial piece of information to make subsequent judgments. Once an anchor is set, other judgments are made by adjusting away from that anchor, and there is a bias toward interpreting other information around the anchor.[2]

In the presentation of pricing, anchoring has a powerful impact on buyer behavior. In negotiated pricing, the first price offered becomes the anchor. For example, the initial price offered for a used car sets the standard for the rest of the negotiations, so that prices lower than the initial price seem more reasonable even if they are still higher than what the car is really worth.

On company Web sites, on restaurant menus, and in the layout of retail stores, anchoring is used to adjust perceptions of price. The prominent presentation of a higher-priced item lifts the buyer's price expectations in a way that makes other items seem more reasonable, even if their prices are also high.

Inviting Price Comparisons

Are there limitations on the impact of anchoring? Another study examined the impact of *providing* price comparisons on buying behavior.

First, researchers listed popular music CDs on the auction site eBay flanked by CDs of the same title with different prices. In one auction, CDs with an opening bid of $1.99 were positioned next to CDs of the same title with a starting bid of 99 cents. In a second auction, those with a starting bid of $1.99 were positioned next to CDs with a starting bid of $6.99. In an auction, the buyer sets the top price, but the cheaper CDs positioned next to the $6.99 CDs sold at much higher prices than the same CDs presented next to those with an initial bid price of 99 cents.

Researcher Itamar Simonson explains, "We didn't tell people to make a comparison; they did it on their own, and when people make these kinds of comparisons on their own, they are very influential."

Next, the research team ran the same auctions but in this case explicitly told the auction participants to compare the $1.99 price to the price of the other CDs presented. This explicit instruction to compare prices adversely impacted buyer behavior in a number of ways. The price of the adjacent CDs ceased to have a statistically significant impact, buyers waited longer to make the first bid, submitted fewer bids, and were much less likely to participate in multiple auctions simultaneously. Simonson explains, "The mere fact that we had asked them to make a comparison caused them to fear that they were being tricked in some way."[3]

So while pricing comparisons can be a value presentation strategy, they are not without risk.

As you can see, pricing has a profound impact on buyer behavior, not only in determining what the buyer can afford, but in the deeper perceptions of value and the marketing exchange process.

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2. *Anchoring bias in decision-making*. (n.d.). Science Daily. https://www.sciencedaily.com/terms/anchoring.htm#:~:text=During%20normal%20decision%20making%2C%20individuals,a%20bias%20toward%20that%20value.

3. LaPlante, A. (2005, July 01). *Asking consumers to compare may have unintended results.* Stanford Business. https://www.gsb.stanford.edu/insights/asking-consumers-compare-may-have-unintended-results

Many consumers pay a premium price for branded eyewear. How does the brand name influence the price and value? The following video shows the mechanics behind these brands and considers the impact on price.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=498#oembed-1

You can view the transcript for "Expensive Glasses" (opens in new window).

11.3 PRICING CONSIDERATIONS

Learning Objectives

- Explain company objectives in the pricing strategy
- Define break-even pricing
- Describe how competition affects pricing strategies
- Describe the benefit of value-based pricing for customers
- Explain the primary factors to consider in pricing

Now that we've considered the customer perspective, we need to understand how pricing fits into the company strategy. It's important to remember that all elements of the marketing mix, including pricing, fit into a larger customer mission and strategy.

An effective pricing strategy will align with the corporate mission, account for competitive factors, and support corporate strategies and objectives.

The specific things you'll learn in this section include:

THE MARKETING PLANNING PROCESS

Source: Lumen Learning. Pricing Considerations, in Module 11. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/outcome-pricing-considerations/

Learning Activities

- Reading: Pricing Objectives

- Reading: Break-Even Pricing
- Reading: Competitor Impact on Pricing
- Reading: Benefits of Value-Based Pricing
- Self Check: Pricing Considerations

Introduction

Companies set the prices of their products in order to achieve specific objectives. Consider the following examples:

In 2014 Nike initiated a new pricing strategy. The company determined from a market analysis that its customers appreciated the value that the brand provided, which meant that it could charge a higher price for its products. Nike began to raise its prices 4–5 percent a year. *Footwear News* reported on the impact of their strategy:

> "*The ability to raise prices is a key long-term advantage in the branded apparel and footwear industry—we are particularly encouraged that Nike is able to drive pricing while most U.S. apparel names are calling for elevated promotional [and] markdown levels in the near-term," said UBS analyst Michael Binetti. Binetti said Nike's new strategy is an emerging competitive advantage.*[1]

Nike's understanding of customer value enabled it to raise prices and achieve company growth objectives, increasing U.S. athletic footwear sales by $168 million in one year.

In 2015 the U.S. airline industry lost $12 billion in value *in one day* because of concerns about potential price wars. When Southwest Airlines announced that it was increasing its capacity by 1 percent, the CEO of American Airlines—the world's largest airline—responded that American would not lose customers to price competition and would match lower fares. *Forbes* magazine reported on the consequences:

> *This induced panic among investors, as they feared that this would trigger a price war among the airlines. The investors believe that competing on prices would undermine the airline's ability to charge profitable fares, pull down their profits, and push them back into the shackles of heavy losses. Thus, the worried investors sold off stocks of major airlines, wiping out nearly $12 billion of market value of the airline industry in a single trading day.*[2]

Common Pricing Objectives

Not surprising, product pricing has a big effect on company objectives. (You'll recall that objectives are essentially a company's business goals.) Pricing can be used strategically to adjust performance to meet revenue or profit objectives, as in the Nike example above. Or, as the airline-industry example shows, pricing can also have unintended or adverse effects on a company's objectives. Product pricing will impact each of the objectives below:

- Profit objective: For example, "Increase net profit in 2016 by 5 percent"
- Competitive objective: For example, "Capture 30 percent market share in the product category"
- Customer objective: For example, "Increase customer retention"

1. Jordan. (2014, July 14). *Nike Price Hikes Drive U.S. Sneaker Growth*. footwearnews. http://footwearnews.com/2014/business/news/nike-price-hikes-drive-u-s-sneaker-growth-144128/

2. Trefis Team. (2015, June 11). *Airlines' stocks drop as fear of price war clouds the industry*. Forbes. http://www.forbes.com/sites/greatspeculations/2015/06/11/airlines-stocks-drop-as-fear-of-price-war-clouds-the-industry/#2715e4857a0b103622d442d5

Of course, over the long run, no company can really say, "We don't care about profits. We are pricing to beat competitors." Nor can the company focus only on profits and ignore how it delivers customer value. For this reason, marketers talk about a company's "orientation" in pricing. Orientation describes the relative importance of one factor compared to the others. All companies must consider customer value in pricing, but some have an orientation toward profit. We would call this profit-oriented pricing.

Profit-Oriented Pricing

Profit-oriented pricing places an emphasis on the finances of the product and business. A business's profit is the money left after all costs are covered. In other words, **profit = revenue – costs**. In profit-oriented pricing, the price per product is set higher than the total cost of producing and selling each product to ensure that the company makes a profit on each sale.

The benefit of profit-oriented pricing is obvious: the company is guaranteed a profit on every sale. There are real risks to this strategy, though. If a competitor has lower costs, then it can easily undercut the pricing and steal market share. Even if a competitor does not have lower costs, it might choose a more aggressive pricing strategy to gain momentum in the market.

Also, customers don't really care about the company's costs. Price is a component of the value equation, but if the product fails to deliver value, it will be difficult to generate sales.

Finally, profit-oriented pricing is often a difficult strategy for marketers to succeed with, because it limits flexibility. If the price is too high, then the marketer has to adjust other aspects of the marketing mix to create more value. If the marketer invests in the other three Ps—by, say, making improvements to the product, increasing promotion, or adding distribution channels—that investment will probably require additional budget, which will further raise the price.

It's fairly standard for retailers to use some profit-oriented pricing—applying a standard mark-up over wholesale prices for products, for instance—but that's rarely their only strategy. Successful retailers will also adjust pricing for some or all products in order to increase the value they provide to customers.

Competitor-Oriented Pricing

Sometimes prices are set almost completely according to competitor prices. A company simply copies the competitor's pricing strategy or seeks to use price as one of the features that differentiates the product. That could mean either pricing the product higher than competitive products, to indicate that the firm believes it to provide greater value, or lower than competitive products in order to be a low-price solution.

This is a fairly simple way to price, especially with products whose pricing information is easily collected and compared. Like profit-oriented pricing, it carries some risks, though. Competitor-oriented pricing doesn't fully take into account the value of the product to the customer vis-à-vis the value of competitive products. As a result, the product might be priced too low for the value it provides, or too high.

As the airline example illustrates, competitor-oriented pricing can contribute to a difficult market dynamic. If players in a market compete exclusively on price, they will erode their profits and, over time, limit their ability to add value to products.

Customer-Oriented Pricing

Source: Lumen Learning. Pricing Objectives, in Module 11. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-pricing-objectives/

Customer-oriented pricing is also referred to as *value-oriented pricing*. Given the centrality of the customer in a marketing orientation (and this marketing course!), it will come as no surprise that customer-oriented pricing is the recommended pricing approach because its focus is on providing value to the customer. Customer-oriented pricing looks at the full price-value equation (Figure 1, above; discussed earlier in the module in "Demonstrating Customer Value") and establishes the price that balances the value. The company seeks to charge the highest price *that supports the value received* by the customer.

Customer-oriented pricing requires an analysis of the customer and the market. The company must understand the buyer persona, the value that the buyer is seeking, and the degree to which the product meets the customer's need. The market analysis shows competitive pricing but also pricing for substitutes.

In an attempt to bring the customer voice into pricing decisions, many companies conduct primary market research with target customers. Crafting questions to get at the value perceptions of the customer is difficult, though, so marketers often turn to something called the Van Westerndorp price sensitivity meter. This method uses the following four questions to understand customer perceptions of pricing:

1. At what price would you consider the product to be so expensive that you would not consider buying it? (Too expensive)
2. At what price would you consider the product to be priced so low that you would feel the quality couldn't be very good? (Too cheap)
3. At what price would you consider the product starting to get expensive, such that it's not out of the question, but you would have to give some thought to buying it? (Expensive/High Side)
4. At what price would you consider the product to be a bargain—a great buy for the money? (Cheap/Good Value)

Each of these questions asks about the customer's perspective on the product value, with price as one component of the value equation.

The responses of many potential buyers can be plotted on a graph (see Figure 2, below). Each line shows the different customer responses to each of the questions at different price points. For example, 100 percent of those interviewed think the product is too cheap at $0, and 40 percent think that it's still too cheap at a price of $500. The graph shows an acceptable price range in which the customers' responses cross one another. They become torn between whether the prices are cheap or expensive but are not clearly landing on one side or the other. The results of this graph suggest a price band between $500 and $1,200.

For the purposes of this course, we won't be getting into a full analysis of these data or the price-sensitivity meter; the important point is that marketers need to balance the customer's perception of the value provided with the customer's perception of the right price ("perceived costs" in Figure 1, above) in the value equation.

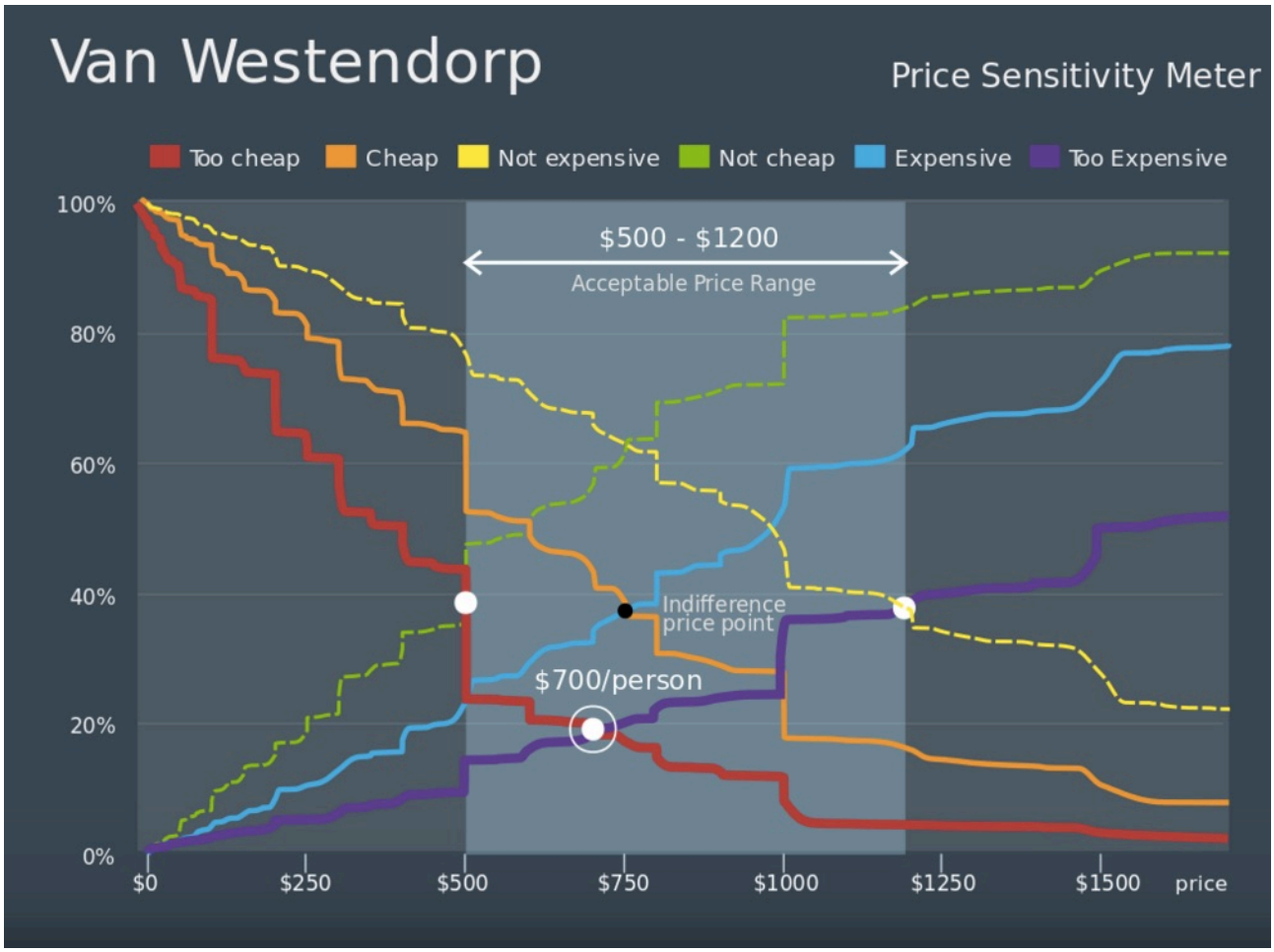


Figure 2. Van Westendorp Price Sensitivity Meter. Source: Lumen Learning. Pricing Objectives, in Module 11. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-pricing-objectives/

Introduction

Regardless of the pricing strategy a company ultimately selects, it is important to do a break-even analysis beforehand. Marketers need to understand break-even analysis because it helps them choose the best pricing strategy and make smart decisions about the short- and long-term profitability of the product.

The break-even price is the price that will produce enough revenue to cover all costs at a given level of production. At the break-even point, there is neither profit nor loss. A company may choose to price its product below the break-even point, but we'll discuss the different pricing strategies that might favor this option later in the module.

Understanding Breakeven

Let's begin with a very simple calculation of breakeven and build from there.

Imagine that you decide to hold a bake sale and sell cookies in the student union as a social event for students. You don't want to lose money on the cookies, but you are not trying to make a profit or even cover your time. You spend a very convenient $24 on groceries and bake 4 dozen cookies (48 cookies). What is your break-even price for the cookies? It's the total cost divided by the number of cookies that you expect to sell, represented by the formula below:

Break-Even Price = Costs / Units

So, it would be $24 / 48 = $.50, or 50 cents per cookie. What if you sell only 40 cookies? The calculation would be $24 / 40 = $.60. Your break-even price goes up if you sell fewer cookies.

One challenge of calculating breakeven is that all of the variables can change, and some are unknown. For instance, it may be impossible to know exactly the quantity that you will sell. For that reason, companies often calculate the break-even *quantity* rather than the break-even *price*. Focusing on quantity enables the marketer to answer the following question: "Given this set of costs and this price, how many products must I sell to break even?" The break-even quantity is shown by the following formula:

Break-Even Quantity (in terms of units) = Costs / Price

In our cookie example, once you have spent $24 on groceries, you know your cost. What if you plan to sell the cookies for $1 apiece? According to the equation above, units = cost / price, so in our case, units = $24 / $1, or 24 cookies.

Of course this is a very simple example, but it gives you a sense of why breakeven matters, and how you would calculate it.

Including Fixed and Variable Costs

Let's add one more complication to make our example a little more realistic and interesting. Your cookies have been such a hit that you decide to sell them more broadly. In fact, you rent commercial kitchen space and hire an experienced baker named Helen to do the baking. Your break-even point just went up dramatically. Now you need to cover the costs of your kitchen and an employee. For the sake of this exercise, let's assume that Helen works a set number of hours every week—20 hours—and that you pay her $20 per hour including all taxes and benefits. You rent the kitchen for $100 per week, and that price includes all the equipment and utilities. Those are costs that are not going

to change no matter how many cookies you sell. If you baked nothing, you would still need to pay $100 per week in rent and $400 per week in wages. Those are your fixed costs. *Fixed costs* do not change as the level of production goes up or down. Your fixed costs are $500 per week.

Now you need to buy ingredients for the cookies. Once you add up the food costs of making a single large batch of cookies, you find that it's a total of $7.20 for a batch of 12 dozen (144) cookies. If you divide that out, you can tell that each cookie costs $.05 in food costs ($7.20 / 144 cookies = $.05). In other words, every cookie you sell is going to have a variable cost of $.05. *Variable costs* do change as production is increased or decreased.

Adding these different types of costs makes the break-even equation more complicated, as shown below:

$$\mathbf{pn = Vn + FC}$$

p = price
n = number of units sold
V = variable cost per unit
FC = fixed costs

With this equation we can calculate either the break-even price or the break-even quantity.

Calculating Break-Even Price

Chances are good that you can only bake a certain number of cookies each week—let's say it's 2,500 cookies—so, based on that information, you can calculate the break-even price. The formula to do that is the following:

$$\mathbf{p = (Vn + FC) / n}$$

n = 2,500
V = $.05
FC = $500
Therefore, p = (($.05 x 2,500) + $500) / 2,500
p = ($125 + $500) / 2,500
p = $.25

Your break-even price for your cookies is 25 cents. That doesn't mean it's the right market price for the cookies; nor does it mean that you can definitely sell 2,500 cookies at whatever price you choose. It simply gives you good information about the price and quantity at which you will cover all your costs.

Calculating Break-Even Quantity

Now let's assume that you have set your price and you need to know your break-even quantity. You are an exceptional marketing student, so you have talked to the people who are likely buyers for your cookies, and you understand what price is a bargain and what price is too expensive. You have compared the price with competitor prices. And, you have considered the price of your cookie compared to the price of doughnuts and ice cream (both are "substitutes" for your product). All of this analysis has led you to set a price of $2 per cookie, but you want to make sure that you don't lose money on your business: You need to calculate the break-even quantity. The formula to do that is the following:

$$\mathbf{n = FC /(p – V)}$$

Using the same inputs for the variables, your equation looks like this: n = $500 / ($2 – $.05)
n = $500 / $1.95
n = 256.41 cookies

So, let's round-up and just call the break-even quantity 257 cookies. Does that mean that you keep the full $2 as

profit for every cookie after 257? Sadly, no. First, you have to cover the variable cost for each cookie ($.05 per cookie), which means you make just $1.95 per cookie you sell (after you've surpassed the break-even point). Second, our simple break-even example did not include *all* of the costs. After you've locked down the product costs and the pricing, you will need to invest in promotion and distribution of the cookies. You'll also probably want to cover your time (i.e., pay yourself) and add some profit into the total fixed costs. For instance, if you wanted to earn a profit of $600 each week, then you would need to add that to the $500 fixed costs of the kitchen and Helen.

Breakeven in the Marketing Strategy

Now that we have a cost example, it's a little easier to think about the pricing objectives. If you decided to price your cookies with a profit orientation, then you would simply add a profit ($1 per cookie, say,) to the break-even price. That approach doesn't take the customer into account at all, though, since a profit orientation is only about the business.

What if you found that your campus stores and vending machines sell a national chain of cookies for 75 cents? Using a competitor-oriented pricing approach, you might decide to match that price and compete on that basis. The drawback is that this approach does not take into account the value your customers find in a fresh, local product—i.e., *your* cookies—made from high-quality ingredients.

A customer-oriented pricing approach allows you to treat the break-even data as one input to your pricing, but it goes beyond that to bring your customers' perceptions and the full value of your product into the pricing evaluation.

Introduction

It's important to remember that pricing is just one component of the marketing mix, and even very specific pricing decisions need to take into account the other components. This is particularly true in a competitive marketplace. Actions by different competitors integrate all elements of the marketing mix and do not focus on price alone. A competitor might make a change to a product or initiate a promotion that impacts customers' perceptions of value and, therefore, their perceptions of price.

Competitive Pricing

Once a business decides to use price as a primary competitive strategy, there are many well-established tools and techniques that can be employed. The pricing process normally begins with a decision about the company's pricing approach to the market. Price is a very important decision criterion that customers use to compare alternatives. It also contributes to the company's position. In general, a business can price its offering to match its competition, or it can price higher or price lower. Each has its pros and cons.

Pricing to Meet Competition

Many organizations attempt to establish prices that, on average, are the same as those set by their more important competitors. Automobiles of the same size with comparable equipment and features tend to have similar prices, for instance. This strategy means that the organization uses price as an indicator or baseline. Quality in production, better service, creativity in advertising, or some other element of the marketing mix is used to attract customers who are interested in products in a particular price category.

The key to implementing a strategy of meeting competitive prices is to have an accurate definition of competition and knowledge of competitors' prices. A maker of handcrafted leather shoes is not in competition with mass producers. If they attempt to compete with mass producers on price, higher production costs will make the business unprofitable. A more realistic definition of competition in this case would be other makers of handcrafted leather shoes. Such a definition along with an understanding of competitors' prices would enable management to put the strategy into effect.

The banking industry often uses this strategy by using technology to actively monitor competitors' rates, fees, and packages in order to adjust their own prices.

Pricing Above Competitors

Pricing above competitors can be rewarding to organizations, provided that the objectives of the policy are clearly understood and the marketing mix is developed in such a way that the policy can be successfully implemented by management.

Pricing above competition generally requires a clear advantage on some nonprice element of the marketing mix. In some cases, that advantage may be due to a high price-quality association on the part of potential buyers.

Betting on that advantage is increasingly dangerous in today's information-rich environment, however. Online shoppers can get quick price comparisons and read customer or expert reviews to evaluate other elements of the value proposition. This is true for both business-to-consumer and business-to-business offerings. Many consumers also take advantage of their smartphones when they shop: it's easy enough to stand in one store and compare price and distribution options for the same product and for competitive products. Customers' access to information puts more pressure on marketers to understand customer value and provide an offering whose price, relative to competitors' prices, contributes to the value.

You'll recall our earlier example of Nike using a strategy of raising prices—while its competitors were holding pricing flat or reducing prices—because its analysis showed that it was providing sufficient value to sustain a higher price.

Pricing Below Competitors

While some firms are positioned to price above competition, others wish to carve out a market niche by pricing below competitors. The goal of such a policy is to realize a large sales volume through a lower price and lower profit margins. By controlling costs and reducing services, these firms are able to earn an acceptable profit, even though profit per unit is usually less.

Such a strategy can be effective if a significant segment of the market is price sensitive and/or the organization's cost structure is lower than competitors'. Costs can be reduced by increased efficiency, economics of scale, or by reducing or eliminating such things as credit, delivery, and advertising. For example, if a firm could replace its field sales force with telemarketing or online access, this function might be performed at lower cost. Such reductions often involve some loss in effectiveness, so the trade-off must be considered carefully.

One of the worst outcomes that can result from pricing lower than a competitor is a "price war." Price wars usually occur when a company believes that price-cutting will increase market share, but it doesn't have a true cost advantage. Price wars are often caused by companies misreading or misunderstanding competitors. Typically, they are overreactions to threats that either are nonexistent or are not as big as they seem. You will remember our example of the airline price war, in which the stock price of airlines plummeted because stockholders reacted negatively to price reductions, fearing that a price war would eliminate profits and put the health of the industry at risk.

In the module on product marketing we described the ride-sharing service Uber. Uber has successfully undercut the taxi industry with a product that improves services while lowering prices, which has led to extremely rapid growth and success for the company. When lower prices are part of a complete, compelling value proposition, pricing can provide a powerful solution and create a challenging competitive environment for existing players.

The Customer and the Pricing Decision

We have discussed common company objectives that affect pricing and the competitive impact on pricing. The most important perspective in the pricing process is the customer's. Value-based pricing brings the voice of the customer into the pricing process. It bases prices primarily on the value to the customer rather than on the cost of the product or historical prices determined by competitors.

If we consider the three approaches to setting price, cost-based pricing is focused entirely on the perspective of the company, with very little concern for the customer; demand-based pricing is focused on the customer, but only as a predictor of sales; and value-based pricing focuses entirely on the customer as the determiner of the total price/value package. Marketers who employ value-based pricing might describe it this way: "Price is what you think your product is worth to that customer at that time." This approach regards the following as marketing/price truths:

- To the customer, price is the only unpleasant part of buying.
- Price is the easiest marketing tool to copy.
- Price represents everything about the product.

Still, value-based pricing is not altruistic. It asks and answers two questions:

1. What is the highest price I can charge and still make the sale?
2. Am I willing to sell at that price?

In order to answer these questions we need to consider both customer- and competitor-related factors. In answering the second question, we would also want to use the break-even analysis that we discussed in the previous section, as well as other financial and strategic analyses.

Customer-Related Factors

Several customer-related factors are important in value-based pricing; one of them is understanding the customer buying process. For a convenience good, customers often spend little time, planning, or effort in the buying process, and purchases are more often made on impulse. With a shopping product, the consumer is more likely to compare a number of options when evaluating quality, cost, and features; as a result, he or she will require a better understanding of price in order to assess value.

Another issue is that different groups or segments of customers view price differently. Buyer personas can be instrumental to a marketer's grasp of those differences and the role price plays in the decision-making process. Some buyers will weight convenience or quality over price, for instance, while others will be highly price sensitive.

The marketer must understand what the customer values, what the customer expects, and how the customer evaluates price in the value equation.

Competitor-Related Factors

A second factor influencing value-based pricing is competitors. We asserted above that the primary driver of value-based pricing is the customer's estimation of value—not costs or historical competitor prices. Still, competitors do influence the customer's view of value. The marketing mix of competitive products have an impact on customer expectations because they an important part of the decision-making context. Customers are shopping across products and brands and take price differences into account when evaluating the quality and benefits of competitive products. These direct comparisons have tremendous impact on the customer's perceptions of value.

In value-based pricing, the marketer must also consider indirect competitors that consumers may use as a basis for price comparisons. For example, one might use the price of a vacation as a basis for buying vacation clothes. The cost of eating out is frequently compared to the cost of groceries.

Ultimately, value-based pricing offers the following three tactical recommendations:

- Employ a segmented approach toward price that considers how each group of customers assesses value.
- Establish the highest possible price level and justify it with comparable value.
- Use price as one component in the marketing mix, building compelling value across all elements of the offering.

11.4 COMMON PRICING STRATEGIES

Learning Objectives

- Explain why a company would use skim pricing
- Explain why a company would use penetration pricing
- Explain why a company would use cost-oriented pricing
- Explain how price discounting is used and why it can be effective
- Compare common pricing strategies

Thus far we have discussed many pricing considerations: the impact of pricing on value perceptions, the effects of elasticity, and approaches to common pricing objectives. In this section we are going to introduce some very specific, yet standard pricing strategies that organizations use to bring these concepts together. They do not replace the information that we have discussed to this point, but they are important to understand.

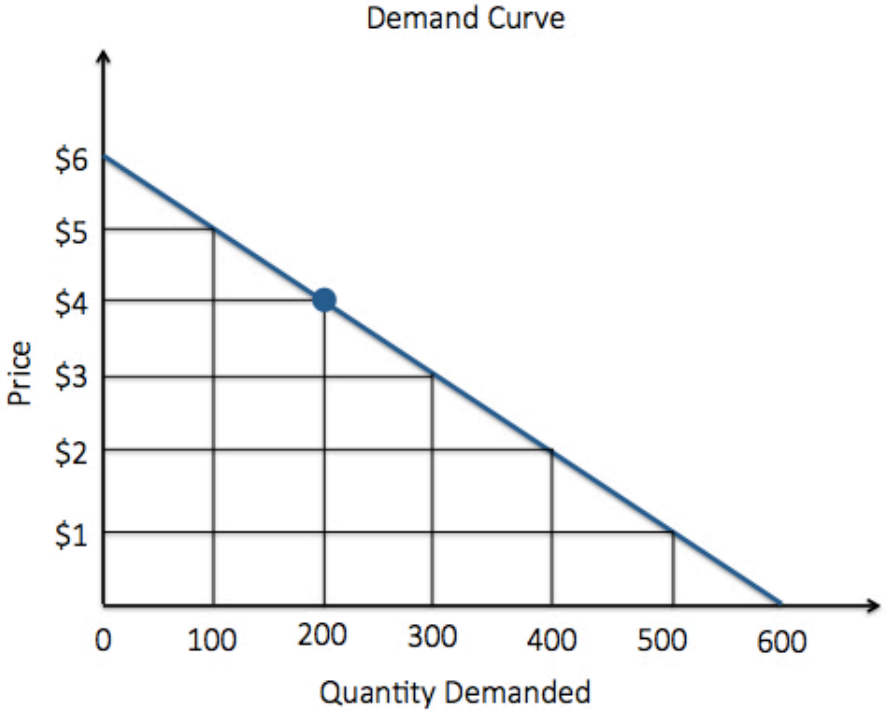
Learning Activities

- Reading: Skim Pricing
- Reading: Penetration Pricing
- Reading: Cost-Oriented Pricing
- Reading: Discounting Strategies
- Self Check: Common Pricing Strategies

With a totally new product, competition either doesn't exist or is minimal, and there's no market data about customer demand. How should the price be set in such a case? There are two common pricing strategies that organizations use for new products: skim pricing and penetration pricing.

The Economics of Price and Demand

In order to understand these pricing strategies, let's review the demand curve. In a typical economic analysis of pricing, the demand curve shows the quantity demanded at every price. In our graph below, the demand increases by 100 units each time the price drops by $1. Based on this demand, if a company priced its product at $4, consumers would buy 200 units. If the company wanted to raise its prices, it could charge $5, but then consumers would buy only 100 units. This is an oversimplified example, but it shows an important relationship between price and demand.



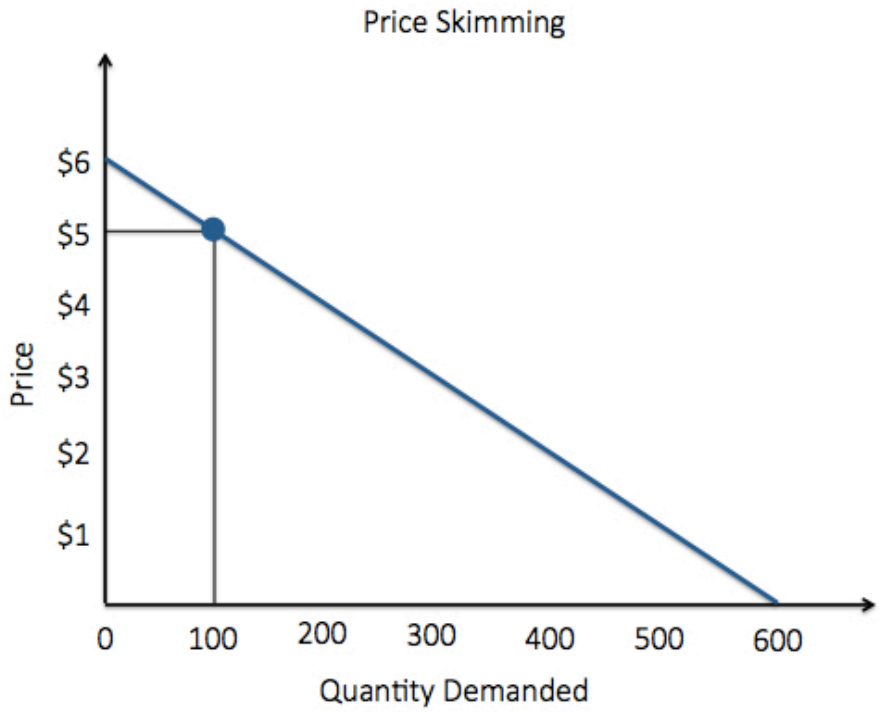
Source: Lumen Learning. Skim Pricing, in Module 11. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-skim-pricing/

The key thing to understand about this model is that when all else is equal, *demand decreases as price increases*. Fortunately, the marketer does not have to regard everything else as fixed. She can make adjustments to product, promotion, or distribution to increase the value to the customer in order to increase demand without lowering price. Still, once the other elements of the marketing mix are fixed, it's generally true that a higher price will result in less demand for a product, and a lower price will result in more demand for a product.

What Is Skim Pricing?

Price skimming involves the top part of the demand curve. A firm charges the highest initial price that customers will pay. As the demand of the first customers is satisfied, the firm lowers the price to attract another, more price-sensitive segment.

Using our example of the demand curve, the price might be set at $5 per unit at first, generating a demand of only 100 units.

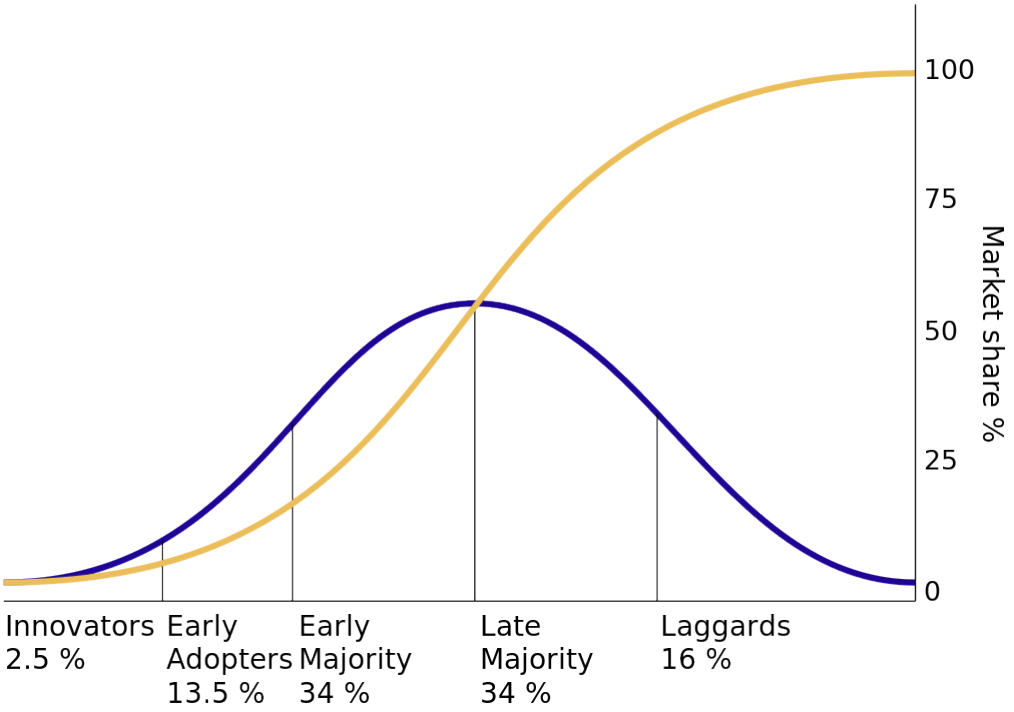


Source: Lumen Learning. Skim Pricing, in Module 11. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-skim-pricing/

The skimming strategy gets its name from skimming successive layers of "cream"—or customer segments—as prices are lowered over time.

Why Might Skim Pricing Make Sense?

There are a number of reasons why an organization might consider a skimming strategy. Sometimes a company simply can't deliver enough of a new product to meet demand. By setting the price high, the company is able to maximize the total revenue that it can generate from the quantity of product that it can make available.



Source: Lumen Learning. Skim Pricing, in Module 11. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-skim-pricing/

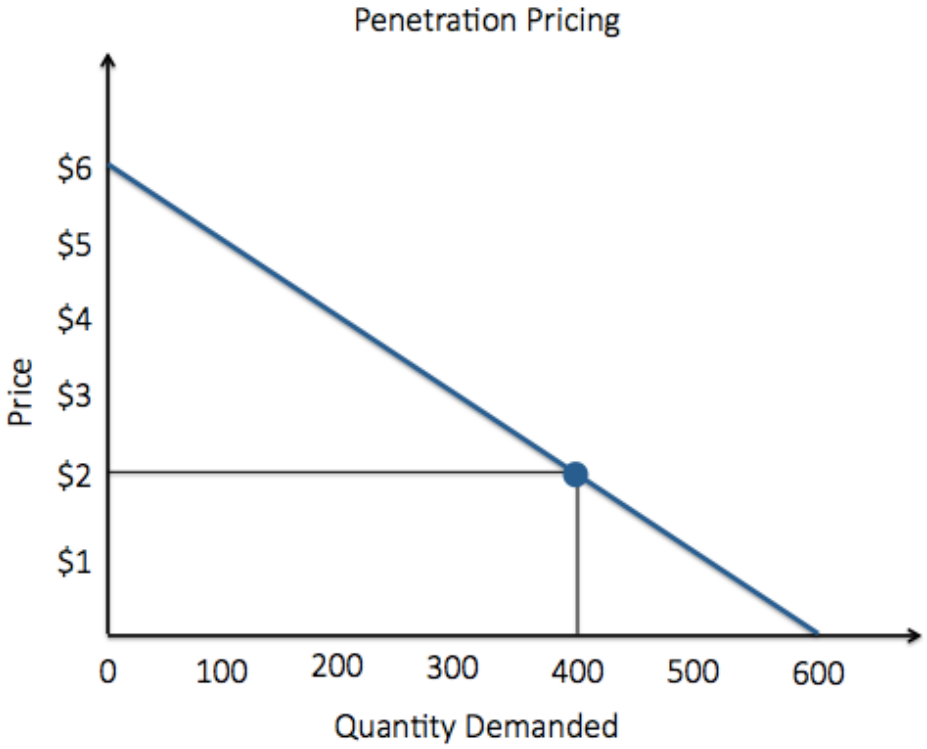
Price skimming can also be part of a customer segmentation strategy. Take a look at the graph, above. You'll remember from our discussion of the product life cycle and customer adoption patterns that the Innovators—the adventurous customers on the left who are game to try new products—are less price sensitive and place a premium on being first to own a new product. A skim-pricing strategy targets these customers and sets a higher price for them. As the product starts to move through the Early Adopters stage, the marketer will often reduce the price to begin drawing Early Majority buyers.

A skimming strategy is most appropriate for a premium product. Today we can see many examples of skim pricing in the electronics industry when new product innovations are introduced. Electronics companies know that many buyers will wait to purchase new technologies, so they use skim pricing to get the highest possible price from the Innovators and Early Adopters.

What Is Penetration Pricing?

Penetration pricing is a pricing strategy in which the price of a product is initially set low to rapidly reach a wide fraction of the market and initiate word of mouth.[1] The strategy works on the assumption that customers will switch to the new product because of the lower price. Penetration pricing is most commonly associated with marketing objectives of enlarging market share and exploiting economies of scale or experience.

Returning to our economic model, below, you can see that penetration pricing focuses at the bottom of the demand curve. If the initial price is set low, at $2, for instance, the quantity demanded will be high: 400 units.



Source: Lumen Learning. Penetration Pricing, in Module 11. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-penetration-pricing/

Penetration pricing offers a lower price in order to draw in higher demand from consumers.

Why Might Penetration Pricing Make Sense?

Like skim pricing, penetration pricing shows an awareness of the dynamics in the product life cycle. The advantages of penetration pricing to the firm are the following:

1. J Dean (1976). "Pricing Policies for New Products." *Harvard Business Review* 54 (6): 141–153.

- It can result in fast diffusion and adoption across the product life cycle. The strategy can achieve high market penetration rates quickly, taking competitors by surprise and not giving them time to react.
- It can create goodwill among the Innovators and Early Adopters, which can generate more demand via word of mouth.
- It establishes cost-control and cost-reduction pressures from the start, leading to greater efficiency.
- It discourages the entry of competitors.
- It can generate high stock turnover throughout the distribution channel, which creates important enthusiasm and support in the channel.

The main disadvantage of penetration pricing is that it establishes long-term price expectations for the product and image preconceptions for the brand and company. Both can make it difficult to raise prices later. Another potential disadvantage is that the low-profit margins may not be sustainable long enough for the strategy to be effective.

Cost-Plus Pricing

Cost-plus pricing, sometimes called *gross margin pricing*, is perhaps the most widely used pricing method. The manager selects as a goal a particular gross margin that will produce a desirable profit level. Gross margin is the difference between how much the goods cost and the actual price for which it sells. This gross margin is designated by a percent of net sales. The percent chosen varies among types of merchandise. That means that one product may have a goal of 48 percent gross margin while another has a target of 33.5 percent or 2 percent.

A primary reason that the cost-plus method is attractive to marketers is that they don't have to forecast general business conditions or customer demand. If sales volume projections are reasonably accurate, profits will be on target. Consumers may also view this method as fair, since the price they pay is related to the cost of producing the item. Likewise, the marketer is sure that costs are covered.

A major disadvantage of cost-plus pricing is its inherent inflexibility. For example, department stores often find it hard to meet (and beat) competition from discount stores, catalog retailers, and furniture warehouses because of their commitment to cost-plus pricing. Another disadvantage is that it doesn't take into account consumers' perceptions of a product's value. Finally, a company's costs may fluctuate, and constant price changing is not a viable strategy.

Markups

When middlemen use the term **markup**, they are referring to the difference between the average cost and price of all merchandise in stock, for a particular department, or for an individual item. The difference may be expressed in dollars or as a percentage. For example, a man's tie costs $14.50 and is sold for $25.23. The dollar markup is $10.73. The markup may be designated as a percent of the selling price or as a percent of the cost of the merchandise. In this example, the markup is 74 percent of cost ($10.73 / $14.50) or 42.5 percent of the retail price ($10.73 / $25.23).

There are several reasons why expressing markup as a percentage of selling price is preferred to expressing it as a percentage of cost. One is that many other ratios are expressed as a percentage of sales. For instance, selling expenses are expressed as a percentage of sales. If selling costs are 8 percent, it means that for each $100,000 in net sales, the cost of selling the merchandise is $8,000. Advertising expenses, operating expenses, and other types of expenses are quoted in the same way. Thus, when making comparisons, there is a consistency in expressing all expenses and costs, including markup, as a percentage of sales (selling price).

As an illustration of the cost-based process of pricing, let's look at Johnnie Walker Black Label Scotch Whisky. This product sells for about $30 in most liquor stores. How was this price derived? The per-bottle costs are shown below:

$5.00 production, distillation, maturation
+ $2.50 advertising
+ $3.11 distribution
+ $4.39 taxes
+ $7.50 markup (retailer)
+ $7.50 net margin (manufacturer)

$30.00 total

Each of the cost elements, including the retailer's markup, is added to the initial production costs, and the total is the final price.

Cost-Oriented Pricing of New Products

Certainly costs are an important component of pricing. No firm can make a profit until it covers its costs. However, the process of determining costs and setting a price based on costs does not take into account what the customer is willing to pay at the marketplace. This strategy is a bit of a trap for companies that develop products and continually add features to them, thus adding cost. Their cost-based approach leads them to add a percentage to the cost, which they pass on to customers in the form of a new, higher price. Then they are disappointed when their customers do not see sufficient value in the cost-based price.

In addition to deciding about the base price of products and services, marketing managers must also set policies regarding the use of discounts and allowances. There are many different types of price reductions–each designed to accomplish a specific purpose. The major types are described below.

Quantity Discounts

Quantity discounts are reductions in base price given as the result of a buyer purchasing some predetermined quantity of merchandise. A noncumulative quantity discount applies to each purchase and is intended to encourage buyers to make larger purchases. This means that the buyer holds the excess merchandise until it is used, possibly cutting the inventory cost of the seller and preventing the buyer from switching to a competitor at least until the stock is used. A cumulative quantity discount applies to the total bought over a period of time. The buyer adds to the potential discount with each additional purchase. Such a policy helps to build repeat purchases.

Both Home Depot and Lowe's offer a contractor discount to customers who buy more than $5,000 worth of goods. Home Depot has a tiered discount for painters, who can save as much as 20 percent off of retail once they spend $7,500.[1]

Seasonal Discounts

Seasonal discounts are price reductions given for out-of-season merchandise—snowmobiles discounted during the summer, for example. The intention of such discounts is to spread demand over the year, which can allow fuller use of production facilities and improved cash flow during the year.

Seasonal discounts are not always straightforward. It seems logical that gas grills are discounted in September when the summer grilling season is over, and hot tubs are discounted in January when the weather is bad and consumers spend less freely. However, the biggest discounts on large-screen televisions are offered during the weeks before the Super Bowl when demand is greatest. This strategy aims to drive impulse purchases of the large-ticket item, rather than spurring sales during the off-season.

Cash Discounts

Cash discounts are reductions on base price given to customers for paying cash or within some short time period. For example, a 2 percent discount on bills paid within 10 days is a cash discount. The purpose is generally to accelerate the cash flow of the organization and to reduce transaction costs.

Generally cash discounts are offered in a business-to-business transaction where the buyer is negotiating a range of pricing terms, including payment terms. You can imagine that if you offered to pay cash immediately instead of using a credit card at a department store, you wouldn't receive a discount.

1. http://www.homedepot.com/c/Pro_Xtra

Trade Discounts

Trade discounts are price reductions given to middlemen (e.g., wholesalers, industrial distributors, retailers) to encourage them to stock and give preferred treatment to an organization's products. For example, a consumer goods company might give a retailer a 20 percent discount to place a larger order for soap. Such a discount might also be used to gain shelf space or a preferred position in the store.

Calico Corners offers a 15 percent discount on fabrics to interior designers who are creating designs or products for their customers. They have paired this with a quantity discounts program that offers gift certificates for buyers who purchase more than $10,000 in a year.

Personal Allowances

Personal allowances are similar strategies aimed at middlemen. Their purpose is to encourage middlemen to aggressively promote the organization's products. For example, a furniture manufacturer may offer to pay some specified amount toward a retailer's advertising expenses if the retailer agrees to include the manufacturer's brand name in the ads.

Some manufacturers or wholesalers also give retailers prize money called "spiffs," which can be passed on to the retailer's sales clerks as a reward for aggressively selling certain items. This is especially common in the electronics and clothing industries, where spiffs are used primarily with new products, slow movers, or high-margin items.

When employees in electronics stores recommend a specific brand or product to a buyer they may receive compensation from the manufacturer on top of their wages and commissions from the store.

Trade-In Allowances

Trade-in allowances also reduce the base price of a product or service. These are often used to help the seller negotiate the best price with a buyer. The trade-in may, of course, be of value if it can be resold. Accepting trade-ins is necessary in marketing many types of products. A construction company with a used grader worth $70,000 probably wouldn't buy a new model from an equipment company that did not accept trade-ins, particularly when other companies do accept them.

Price Bundling

Price bundling is a very popular pricing strategy. The marketer groups similar or complementary products and charges a total price that is lower than if they were sold separately. Comcast and Direct TV both follow this strategy by combining different products and services for a set price. Similarly, Microsoft bundles Microsoft Word, Excel, Powerpoint, OneNote, and Outlook in the Microsoft Office Suite. The underlying assumption of this pricing strategy is that the increased sales generated will more than compensate for a lower profit margin. It may also be a way of selling a less popular product—like Microsoft OneNote—by combining it with popular ones. Industries such as financial services, telecommunications, and software companies make very effective use of this strategy.

11.5 PRICE ELASTICITY

Learning Objectives

- Define elasticity
- Explain the impact of elasticity on price changes
- Identify examples of products with elastic and inelastic demand

Now that you understand different pricing strategies, we're going to tackle one more concept that helps when selecting the right strategy: price elasticity. Elasticity helps us understand how much a change in price will affect market behaviors. If we make a small change in price, will the change have a dramatic impact on the demand for the product or only a small impact? Price elasticity is the measure of the market's response to price changes.

Elasticity is important to pricing decisions because it helps us understand whether raising prices or lowering prices will enable us to achieve our pricing objectives. Will a discount drive increased sales? Will a price increase cause us to lose many buyers or just a few? We have to answer these questions in order to select the most effective pricing strategy.

When you work through this section, start by trying to get a handle on the concept: elasticity helps us understand whether a price change will have a big impact on demand or a small impact. That's it. Don't get too hung up on the math at first. Master the concept; then add the math.

The following video gives an overview of economics that will better prepare you for the readings.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=520#oembed-1

You can view the transcript for "What is Economics" here (opens in new window).

Learning Activities

- Video: Elasticity of Demand
- Reading: Elasticity and Price Changes

- Reading: Products with Elastic and Inelastic Demand
- Self Check: Pricing Elasticity

The following video is a little long to watch, but it provides an excellent overview of elasticity and explains both the concept and the calculations in a simple, easy-to-follow way.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=522#oembed-1

You can view the transcript for "Episode 16: Elasticity of Demand" here (opens in new window).

In review:

- Price elasticity measures the responsiveness of quantity demanded to a change in the product price
- The calculation for price elasticity is the percentage change in quantity demanded divided by the percentage change in price
- When the absolute value of the price elasticity is >1, the price is elastic and people are very sensitive to changes in price
- When the absolute value of the price elasticity is <1, the price is inelastic and people are insensitive to changes in price

Introduction

With a good understanding of what elasticity means and how it is calculated, we can now investigate its impact on pricing strategies. In order to do this, we'll look at a couple of examples and answer the following questions:

1. How much of an impact do we think a price change will have on demand?
2. How would we calculate the elasticity, and does it confirm our assumption?
3. What impact does the elasticity have on the business or pricing objectives?

Please note: when we calculate elasticity, we will always use the *absolute value*, or the real number without regard to its sign. In other words, you can disregard the positive and negative signs and just pay attention to the real number.

Example 1: The Student Parking Permit

How elastic is the demand for student parking passes at your institution? The answer to that question likely varies based on the profile of your institution, but we are going to explore a particular example. Let's consider a community college campus where all of the students commute to class. Required courses are spread throughout the day and the evening, and most of the classes require classroom attendance (rather than online participation). There is a reasonable public transportation system with busses coming to and leaving campus from several lines, but the majority of students drive to campus. A student parking permit costs $40 per term. As the parking lots become increasingly congested, the college considers raising the price of the parking passes in hopes that it will encourage more students to carpool or to take the bus.

If the college increases the price of a parking permit from $40 to $48, will fewer students buy parking permits?

If you think that the change in price will cause many students to decide not to buy a permit, then you are suggesting that the demand is elastic—the students are quite sensitive to price changes. If you think that the change in price will not impact student permit purchases much, then you are suggesting that the demand is inelastic—student demand for permits is insensitive to price changes.

In this case, we can all argue that students are very sensitive to increases in costs *in general*, but the determining factor in their demand for parking permits is more likely to be the quality of alternative solutions. If the bus service does not allow students to travel between home, school, and work in a reasonable amount of time, many students will resort to buying a parking permit, even at the higher price. Because students don't generally have extra money, they may grumble about a price increase, but many will still have to pay.

Let's add some numbers and test our thinking. The college implements the proposed increase of $8. If we divide that by the original price ($40) then we can see that the price increase is 20% (8 / 40 = 0.20). Last year the college sold 12,800 student parking passes. This year, at the new price, the college sells 11,520 parking passes—which is a decrease of 10%, as shown below:

12,800 – 11,520 = 1,280

1,280 / 12,800 = 1 / 10 = 10%

Without doing any more math, we know that a 20% change in price resulted in a 10% change in demand. In other

words, a large change in price created a comparatively smaller change in demand. This means that student demand is inelastic. Let's test the math.

% change in quantity demanded / % change in price = absolute value of price elasticity

10% / 20% = 0.10 / 0.20 = 0.50

0.50 < 1

When the absolute value of the price elasticity is < 1, the demand is inelastic. In this example, student demand for parking permits is inelastic.

What impact does the price change have on the college and its goals for students? First, there are 1,280 fewer cars taking up parking places. If all of those students are using alternative transportation to get to school and this change has relieved parking-capacity issues, then the college may have achieved its goals. However, there's more to the story: the price change also has an effect on the college's revenue, as we can see below:

Year 1: 12,800 parking permits sold x $40 per permit = $512,000

Year 2: 11,520 parking permits sold x $48 per permit = $552,960

The college earned an additional $40,960 in revenue. Perhaps this can be used to expand parking or address other student transportation issues.

In this case, student demand for parking permits is inelastic. A significant change in price leads to a comparatively smaller change in demand. The result is lower sales of parking passes but more revenue.

Note: If you attend an institution that offers courses completely or largely online, the price elasticity for parking permits might be completely inelastic. Even if the institution gave away parking permits, you might not want one.

Example 2: Helen's Cookies

When we discussed break-even pricing, we used the example of a new cookie company that was selling its cookies for $2. In this example, let's put the cookies in a convenience store, which has several options on the counter that customers can choose as a last-minute impulse buy. All of the impulse items range between $1 and $2 in price. In order to raise revenue, Helen (the baker, who has taken over the company,) decides to raise her price to $2.20.

If Helen increases the cookie price from $2.00 to $2.20—a 10% increase—will fewer customers buy cookies?

If you think that the change in price will cause many buyers to forego a cookie, then you are suggesting that the demand is elastic, or that the buyers are sensitive to price changes. If you think that the change in price will not impact sales much, then you are suggesting that the demand for cookies is inelastic, or insensitive to price changes.

Let's assume that this price change does impact customer behavior. Many customers choose a $1 chocolate bar or a $1.50 doughnut over the cookie, or they simply resist the temptation of the cookie at a higher price. Before we do any math, this assumption suggests that the demand for cookies is elastic.

Adding in the numbers, we find that Helen's weekly sales drop from 200 cookies to 150 cookies. This is a 25% change in demand on account of a 10% price increase. We immediately see that the change in demand is greater than the change in price. That means that demand is elastic. Let's do the math.

% change in quantity demanded / % change in price

25% / 10% = 2.5

2.5 > 1

When the absolute value of the price elasticity is > 1, the demand is elastic. In this example, the demand for cookies is elastic.

What impact does this have on Helen's objective to increase revenue? It's not pretty.

Price 1: 200 cookies sold x $2.00 per cookie = $400

Price 2: 150 cookies sold x $2.20 = $330

She is earning less revenue because of the price change. What should Helen do next? She has learned that a small change in price leads to a large change in demand. What if she lowered the price slightly from her original $2.00 price? If the pattern holds, then a small reduction in price will lead to a large increase in sales. That would give her a much more favorable result.

Now that you've had some practice calculating the value of elasticity, let's turn to some of the factors that play a role in whether a product is likely to have elastic or inelastic demand. The following factors can have an effect on elasticity:

- **Substitutes**: If it's easy to choose a different product when prices change, the demand will be more elastic. If there are few or no alternatives, demand will be more inelastic.
- **Absolute price**: When a product is very expensive, even a small percentage change in price will make it prohibitively expensive to more buyers. If the price of a product is a tiny percentage of the buyer's overall spending power, then a change in price will have less impact.
- **Importance of use**: In our previous example, we examined the elasticity of demand for cookies. A buyer may enjoy a cookie, but it doesn't fulfill a critical need the way a snow shovel after a blizzard or a life-saving drug does. In general, the more important the product's use, the more inelastic the demand will be.
- **Competitive dynamics**: Goods that are produced by a monopoly generally have inelastic demand, while products that exist in a competitive marketplace have elastic demand. This is because a competitive marketplace will create more options for the buyer.

With these considerations in mind, take a moment to see if you can figure out which of the following products have elastic demand and which have inelastic demand. It may be helpful to remember that when the buyer is **in**sensitive to price, demand is **in**elastic.

Gasoline

Gasoline (Generic Need)

The demand for gasoline generally is fairly **inelastic**. Car travel requires gasoline. The substitutes for car travel offer less convenience and control. Much car travel is necessary for people to move between activities and cannot be reduced to save money.

Gas from a Specific Station

The demand for gasoline from any single gas station, or chain of gas stations, is highly **elastic**. Buyers can choose between comparable products based on price. There are often many stations in a small geographic area that are equally convenient.

College Textbooks

Traditional Textbooks

Generally an instructor assigns a textbook to the student, and the student who wants access to the learning materials must buy it, regardless of the price. Because the student can't easily identify another textbook or resource that will ensure the same content and grade for the class, he has no substitutes and must buy the book at any price. Thus the demand is **inelastic**.

New Textbook Distribution Channels

Increasingly, students have new options to buy the same textbooks from different distribution channels at different price points. The introduction of new distribution channels is increasing options for buyers and having an impact on the price elasticity for publishers.

Coffee

Specialty Coffee Drinks

Many coffee shops have developed branded drinks and specialized experiences in order to reduce substitutes and build customer loyalty. While black coffee is available almost universally, there are few substitutes for a Starbucks Java Chip Frappuccino. Demand for such products is more **inelastic**.

Black Coffee

Coffee is generally widely available at a level of quality that meets the needs of most buyers. The combination of a low price, relative to the buyer's spending power, and the fact that the product is sold by many different suppliers in a competitive market make the demand highly **elastic**.

Tickets

Concert Tickets

Only Taylor Swift can offer a Taylor Swift concert. She holds a monopoly on the creation and delivery of that experience. There is no substitute, and loyal fans are willing to pay for the experience. Because it is a scarce resource and the delivery is tightly controlled by a single provider, access to concerts has **inelastic** demand.

Airline Tickets

Airline tickets are sold in a fiercely competitive market. Buyers can easily compare prices, and buyers experience the services provided by competitors as being very similar. Buyers can often choose not to travel it the cost is too high, or to substitute travel by car or train. This makes the demand **elastic**.

Health

Medical Procedures

Essential medical procedures have inelastic demand. The patient will pay what she can or what she must. In Canada most health services are paid for by the government. But elsewhere in the world, like the USA, people pay for health care services. In general, products that significantly affect health and well-being have **inelastic** demand.

Soft Drinks

Soft drinks and many other nonessential items have highly **elastic** demand. There is competition among every brand and type of soda, and there are many substitutes for the entire category of soft drinks.

Try It

Play the simulation below multiple times to see how different choices lead to different outcomes. All simulations allow unlimited attempts so that you can gain experience applying the concepts.

https://lumenlearning.h5p.com/content/1290778946053505708/embed

<!–

https://www.branchtrack.com/projects/yn2fbliw/embed

–>

11.7 PUTTING IT TOGETHER: PRICING STRATEGIES

Let's return to our discussion of Amazon Prime pricing in the context of the pricing concepts we've discussed. It might be helpful to review the key facts:

- In 2005, Amazon introduced Amazon Prime for an annual membership fee of $79
  - The service initially included unlimited 2-day shipping on orders
  - Over the next 8 years, Amazon augmented Prime with a host of new features without changing the price
- In 2014 Amazon raised the pricing for annual Amazon Prime memberships to $99
- Annually, Amazon loses at least $1 billion on Prime-related shipping expenses
- Amazon spent $1.3 billion on Prime Instant Video in 2014, over and above the shipping costs
- Amazon Prime has between 40 and 50 million subscribers
- Prime members spend an average of $538 annually with Amazon, far more than the $320 by non-Prime members[1]

Returning to our original question, is it strategic genius or terrible folly for Amazon to lose billions of dollars a year on Amazon Prime on account of its pricing? Is Amazon actually losing money on Prime, or is Prime bringing in enough other sales to cover its costs?

Customer Value

Amazon was able to clearly articulate benefits to the customer that aligned with the offering and supported the pricing. It did this by

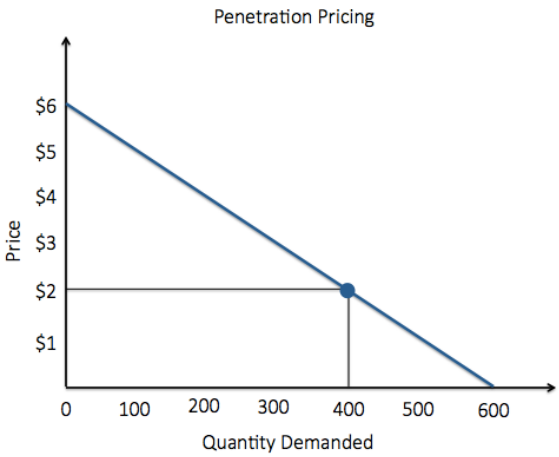
- Providing shipping that had been a luxury
- Eliminating delivery risk with predictable fulfillment
- Offering ease of purchase by combining the cost into one annual purchase

These benefits allowed Amazon to create value with the offering.

1. Tsukayama, H. (2015, February 03). *What Amazon's learned from a decade of Prime*. The Washington Post. https://www.washington-post.com/news/the-switch/wp/2015/02/03/what-amazons-learned-from-a-decade-of-prime/

Introductory Pricing

It wasn't completely clear whether Amazon's initial pricing was penetration pricing. Because it was a completely new offering, it was difficult to know how much it would be used and hard to analyze the cost to Amazon for providing the service. The decision to keep the pricing at $79 while adding significant new services certainly looks like penetration pricing. As a reminder, this is a strategy to drive significant early sales—to penetrate the market.



Source: Lumen Learning. Pricing Strategies, in Module 11. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/putting-it-together-pricing-strategies/

Achieving Pricing Objectives

Clearly, Amazon is hoping to draw new customers and increase total sales. Let's look at some of the assumptions and see whether this is working. If Amazon has 40 million Prime subscribers, and each is spending $218 more annually ($538 – $320 from the data above) because of Prime, then Amazon is bringing in an additional $8.7 billion in revenue annually from increased Prime sales. Perhaps only half of the members truly spend more, but that would still mean $4.36 billion in revenue.

Not all of that revenue is profit. If Amazon's average markup on the sales of the items sold is 25 percent, then $8.7 billion in revenue might result in $2.2 billion in profit. This could then cover some of the losses that the Prime service collects as an independent offering.

Based on this simple analysis, it is not immediately clear if Amazon is growing its profitability because of Amazon Prime. It does indicate that Amazon is growing revenue because of Prime. Both revenue growth and profitability growth are common objectives, and Amazon has historically been willing to take losses on the profit side in order to grow product lines and markets with long-term potential. If that is the case here, then Amazon is achieving a key objective.

Answering the Strategic Question

Is the pricing for Amazon Prime the right decision? Clearly, the answer has to be, "It depends." That's not completely satisfying, but it does acknowledge the complexity of pricing an offering that is driving growth, increasing sales per customer, opening new offerings and markets (like video and music streaming), and generating a significant financial loss for the company.

Amazon reminds us that pricing is complex, and it doesn't always have a clear right answer.

CHAPTER 12: PROMOTION: INTEGRATED MARKETING COMMUNICATION (IMC)

Learning Objectives

- Understand why integrated marketing communication (IMC) matters
- Explain integrated marketing communication (IMC) and its connection to the organization's marketing strategy
- Discuss how to develop effective messaging for marketing communications
- Explain factors to consider when selecting marketing communication methods to execute the strategy
- Describe common methods of marketing communication, their advantages and disadvantages
- Explain how IMC tools support the sales process
- Describe the uses of Customer Relationship Management (CRM) systems for marketing communication purposes
- Explain common tools and approaches used to measure marketing communication effectiveness
- Create a marketing campaign and budget using multiple IMC tools to execute a marketing strategy

12.1 WHY IT MATTERS: PROMOTION: INTEGRATED MARKETING COMMUNICATION (IMC)

Learning Objectives

Identify how organizations use integrated marketing communication (IMC) to support their marketing strategies?

The fourth P, *promotion*, focuses on communicating with target audiences about something: a product, service, organization, idea, or brand. Communication is how you let people know about your offering (product) and why it matters, how much it costs (price), and where to find it (place).

A very wide array of tools is available today to help marketers communicate with their target audiences. Selecting the right tools for the job and combining them into a successful marketing effort is a critically important task for modern marketers. In fact, it has a special name: **integrated marketing communication** (IMC).

The best way to start learning about IMC is to see it in action.

As you watch the following videos, consider the following questions:

1. Who is the target of this IMC effort?
2. What core message is being communicated?
3. How many and which communication tools are being used?
4. How does this IMC activity turn people into active participants instead of remaining passive audience members?
5. How is the whole impact of this marketing effort more than just the sum of the individual parts?

IMC Example #1: Small Business Saturday

In 2010, American Express teamed up with millions of small businesses to create a marketing event that quickly became a tradition during the holiday shopping season in the U.S.: Small Business Saturday. To make it successful, American Express and its small business network had to create something out of nothing and then convince consumers to show up.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=590#oembed-1

You can view the transcript for "38. AMERICAN EXPRESS OPEN "Small Business Gets An Official Day"" here (opens in new window).

IMC Example #2: Ariel Fashion Shoot

A jam-squirting robot. A busy mall. Designer clothes. Facebook. No, this isn't the plot of a sci-fi action movie targeting "tween" girls. It was, at the time in 2011, the largest and most interactive product demonstration ever undertaken, for a laundry detergent called Ariel Actilift. It grabbed attention across Scandinavia and induced thousands of people to participate by playing a silly remote-controlled game. In the process, it also proved the remarkable stain-fighting powers of the laundry detergent at the center of it all.

https://youtube.com/watch?v=gOOLyUfO1Ag

You can view the transcript for "Ariel Fashion Shoot case study" here (opens in new window).

Understanding Integrated Marketing Communication (IMC)

Not every IMC effort is as elaborate or creative as these examples. The marketers responsible for them imagined and and brought into being something that never existed before. But they also help you begin to see what's possible when you combine creative ideas with the right set of communication tools focused on a common message and particular target segments.

What makes these marketing programs work? When you pull things apart, you see that each of these campaigns starts with clearly articulated goals and audiences. To make their big ideas happen, they use several different marketing tools and techniques that, together, have a larger impact than any of them could manage separately. Each of these marketing activities is also decidedly participatory. It wasn't enough to simply deliver a message. Each project invited members of the target audience to get involved in the marketing process, and they made the invitations so compelling that people actually did it!

As a marketer, how do you go about creating this type of promotional experience? What elements come together to make it possible?

That's what this module is about: how marketers design powerful opportunities to engage their target audiences and shape their perceptions and behaviors. The name of this game is IMC.

12.2 INTEGRATED MARKETING COMMUNICATION (IMC) DEFINITION

Learning Objectives

- Define integrated marketing communication (IMC)
- Explain how IMC strengthens the impact of marketing communication tools
- List the primary marketing communication methods marketers use as part of their IMC strategy
- Explain how marketers use IMC in their campaigns in order to execute marketing strategy

Promotion is a powerful part of the marketing mix because it determines what and how you communicate with target audiences. In today's world, promotion often has a fancy name: *integrated marketing communication* (IMC). Why the fancy name?

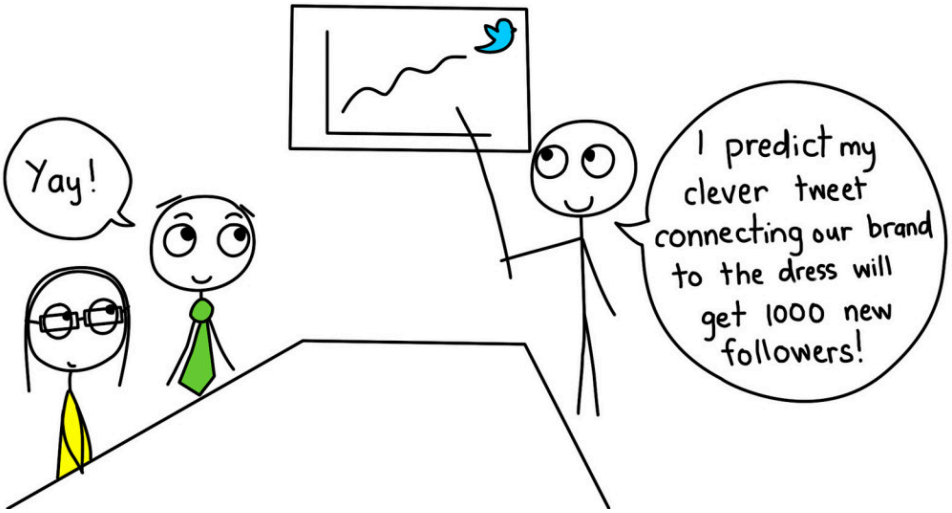
The number and variety of marketing communication tools have proliferated with the expansion of media, Internet, social, and mobile technologies. Marketers face the multipronged challenge of deciding which messages to communicate, which communication tools to use, and how to make the strongest impact with target segments.

Integrated marketing communication encourages marketers to think about communication in a coordinated way. They ask: How can we orchestrate *all* the different means of reaching a target segment in order to maximize our impact?

The specific things you'll learn in this section include:

Learning Activities

- Reading: Integrated Marketing Communication (IMC) Definition
- Reading: Marketing Campaigns and IMC
- Self Check: Integrated Marketing Communication (IMC) Definition



Source: Lumen Learning. Integrated Marketing Communication (IMC) Definition, in Module 13. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-imc-definition/

IMC: Making an Impact with Marketing Communication

Having a great product available to your customers at a great price does absolutely nothing for you if your customers don't know about it. That's where promotion enters the picture: it does the job of connecting with your target audiences and communicating what you can offer them.

In today's marketing environment, promotion involves *integrated marketing communication* (IMC). In a nutshell, IMC involves bringing together a variety of different communication tools to deliver a common message and make a desired impact on customers' perceptions and behavior. As an experienced consumer in the English-speaking world, you have almost certainly been the target of IMC activities. (Practically every time you "like" a TV show, article, or a meme on Twitter, you are participating in an IMC effort!)

The videos you viewed in this module's "Why It Matters" section provide ingenious and successful examples of integrated marketing communication, to give you a feel for what IMC is about. Not every IMC effort is that elaborate or creative, but from those examples, you can begin to see what's possible when you bring together the right combination of ideas and communication tools focused on a common message and target segments.

What Is Marketing Communication?

Defining marketing communication is tricky because, in a real sense, everything an organization does has communication potential. The price placed on a product communicates something very specific about the product. A company that chooses to distribute its products strictly through discount stores sends a distinct message to the market. Marketing communication refers to activities deliberately focused on promoting an offering among target audiences. The following definition helps to clarify this term:

Marketing communication includes all the messages, media, and activities used by an organization to communicate with the market and help persuade target audiences to accept its messages and take action accordingly.

Integrated marketing communication is the process of coordinating all this activity across different communication methods. Note that a central theme of this definition is *persuasion*: persuading people to believe something, to desire something, and/or to do something. Effective marketing communication is goal-directed, and it is aligned with an organization's marketing strategy. It aims to deliver a particular message to a specific audience with a targeted purpose of altering perceptions and/or behavior. Integrated marketing communication (IMC) makes this marketing activity more efficient and effective because it relies on multiple communication methods and customer touchpoints to deliver a consistent message in more ways and in more compelling ways.

The Promotion Mix: Marketing Communication Methods

The *promotion mix* refers to how marketers combine a range of marketing communication methods to execute their marketing activities. Different methods of marketing communication have distinct advantages and complexities, and it requires skill and experience to deploy them effectively. Not surprisingly, marketing communication methods evolve over time as new communication tools and capabilities become available to marketers and the people they target.

Source: Lumen Learning. Integrated Marketing Communication (IMC) Definition, in Module 13. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-imc-definition/

Seven common methods of marketing communication are described below:

- **Advertising:** Any paid form of presenting ideas, goods, or services by an identified sponsor. Historically, advertising messages have been tailored to a group and employ mass media such as radio, television, newspaper, and magazines. Advertising may also target individuals according to their profile characteristics or behavior; examples are the weekly ads mailed by supermarkets to local residents or online banner ads targeted to individuals based on the sites they visit or their Internet search terms.

- **Public relations (PR):** The purpose of public relations is to create goodwill between an organization (or the things it promotes) and the "public" or target segments it is trying to reach. This happens through unpaid or earned promotional opportunities: articles, press and media coverage, winning awards, giving presentations at conferences and events, and otherwise getting favorable attention through vehicles not paid for by the sponsor. Although organizations earn rather than pay for the PR attention they receive, they may spend significant resources on the activities, events, and people who generate this attention.
- **Personal selling:** Personal selling uses people to develop relationships with target audiences for the purpose of selling products and services. Personal selling puts an emphasis on face-to-face interaction, understanding the customer's needs, and demonstrating how the product or service provides value.
- **Sales promotion:** Sales promotions are marketing activities that aim to temporarily boost sales of a product or service by adding to the basic value offered, such as "buy one get one free" offers to consumers or "buy twelve cases and get a 10 percent discount" to wholesalers, retailers, or distributors.
- **Direct marketing:** This method aims to sell products or services directly to consumers rather than going through retailer. Catalogs, telemarketing, mailed brochures, or promotional materials and television home shopping channels are all common traditional direct marketing tools. Email and mobile marketing are two next-generation direct marketing channels.
- **Digital marketing:** Digital marketing covers a lot of ground, from Web sites to search-engine, content, and social media marketing. Digital marketing tools and techniques evolve rapidly with technological advances, but this umbrella term covers all of the ways in which digital technologies are used to market and sell organizations, products, services, ideas, and experiences.
- **Guerrilla marketing:** This newer category of marketing communication involves unconventional, innovative, and usually low-cost marketing tactics to engage consumers in the marketing activity, generate attention and achieve maximum exposure for an organization, its products, and/or services. Generally guerrilla marketing is experiential: it creates a novel situation or memorable experience consumers connect to a product or brand.

Most marketing initiatives today incorporate multiple methods: hence the need for IMC. Each of these marketing communication methods will be discussed in further detail later in this module.

The Objectives of Marketing Communication

The basic objectives of all marketing communication methods are (1) to communicate, (2) to compete, and (3) to convince. In order to be effective, organizations should ensure that whatever information they communicate is clear, accurate, truthful, and useful to the stakeholders involved. In fact, being truthful and accurate in marketing communications is more than a matter of integrity; it's also a matter of legality, since fraudulent marketing communications can end in lawsuits and even the criminal justice system.

Marketing communication is key to competing effectively, particularly in markets where competitors sell essentially the same product at the same price in the same outlets. Only through marketing communications may an organization find ways to appeal to certain segments, differentiate its product, and create enduring brand loyalty. Remaining more appealing or convincing than competitors' messages is an ongoing challenge.

Ideally, marketing communication is convincing: it should present ideas, products, or services in such a compelling way that target segments are led to take a desired action. The ability to persuade and convince is essential to winning new business, but it may also be necessary to reconvince and retain many consumers and customers. Just because a customer buys a particular brand once or a dozen times, or even for a dozen years, there is no guarantee

that the person will stick with the original product. That is why marketers want to make sure he or she is constantly reminded of the product's unique benefits.

Shifting from Mass Marketing to IMC

Prior to the emergence of integrated marketing communications in the 1990s, mass communications (also called mass marketing)—the practice of relaying information to large segments of the population through television, radio, and other media—dominated marketing. Marketing was a one-way feed. Advertisers broadcasted their offerings and value propositions with little regard for the diverse needs, tastes, and values of consumers.

Often, this "one size fits all" approach was costly and uninformative due to the lack of tools for measuring results (in terms of sales). But as methods for collecting and analyzing consumer data improved—for example, with store scanners and electronic data about consumer purchases—marketers were increasingly able to correlate promotional activities with consumer purchasing patterns. Companies also began to downsize their operations and expand marketing tasks within their organizations.

As these changes were underway, at the same time consumers were gaining access to more and different types of specialized "niche" media along with new ways of consuming media. Cable television, DVRs, and a plethora of digital media have contributed to significant fragmentation of the mass market. While expensive mass-media advertising is still an option, it has less and less of an impact every year. Instead, most organizations find that it's more cost-effective to reach target segments using other marketing communication strategies. As consumers turn to niche media, marketers' promotion strategies (and marketing communication) have focused more on individualized patterns of consumption and on segmentation based on consumer tastes and preferences.

Technology has also driven the shift toward integrated marketing communication. Increasingly, organizations use highly targeted, data-based marketing rather than general-focus mass communication and advertising. This approach generates more information that marketers can use for segmentation and targeting based on many different criteria. Virtually unlimited Internet access has increased the online availability of information, goods, services, and ideas. It has brought a proliferation of new and more interactive tools, including mobile technology, that can be used for marketing communication purposes. Broader transparency and access to market information have shifted power away from retailers and manufacturers and toward consumers and their ability to control or manipulate the market in their favor.

With these developments, marketing teams and advertising/creative agencies are expected to understand and provide all marketing communication functions—not just advertising—for their clients. Most organizations now allocate budgets toward a variety of marketing communication methods, not just mass media. Taking full advantage of marketing opportunities that exist in a more diverse and fragmented media landscape, marketing is now viewed as a two-way, interactive conversation between marketers and consumers. Marketing activities seek not only to expose consumers to a message, but to engage them actively in the marketing process. The days of one-way, broadcast-style marketing are over.

A proliferation of marketing communication tools and opportunities means marketers must 1) identify which tools are the best fit for the audience and marketing objectives and 2) deliver a unified message and coordinated approach across these tools. To help execute a marketing strategy, multiple marketing communication methods and tools should deliver a well-coordinated message to engage the right people at the right time, in the right place, and doing the right things. This is what we mean by "integrated" marketing communications.

The Marketing Campaign

Determining which marketing communication methods and tools to use and how best to combine them is a challenge for any marketer planning a promotional strategy. To aid the planning process, marketing managers often use a campaign approach. A **campaign** is a planned, coordinated series of marketing communication efforts built around a single theme or idea and designed to reach a particular goal. For years, the term "campaign" has been used in connection with advertising, and this term applies equally well to the entire IMC program.

Organizations may conduct many types of IMC campaigns, and several may be run concurrently. Geographically, a firm may have a local, regional, or national campaign, depending upon the available funds, objectives, and market scope. One campaign may be aimed at consumers and another at wholesalers and retailers. Different marketing campaigns might target different segments simultaneously, delivering messages and using communication tools tailored to each segment. Marketers use a marketing plan (sometimes called an IMC plan) to track and execute a set of campaigns over a given period of time.

A campaign revolves around a theme, a central idea, focal point, or purpose. This theme permeates all IMC efforts and works to unify the campaign. The theme may refer to the campaign's goals—for example, KCRW "Capital Campaign" launched by the popular Los Angeles-based public radio station KCRW to raise $48 million to build a new state-of-the-art media facility for its operations. The theme may also refer to the shift in customer attitudes or behavior that a campaign focuses on—such as new-member campaigns launched by numerous member organizations, from professional associations to school parent-teacher organizations. A theme might take the form of a slogan, such as Coca-Cola's "Taste the Feeling" campaign or DeBeers' "A diamond is forever."

Clear Channel is a marketing company that specializes in outdoor advertising. For their latest advertising campaign in Switzerland, they created a slogan-based theme, "Where Brands Meet People," and asked their clients to participate in dramatizing it. Dozens of Swiss companies gave their logo to be used as individual "tiles" in three colorful mosaic portraits.[1] These mosaics appeared on the web and on the streets of Switzerland. Click here to see a high-resolution image of one mosaic and check out all the brands that make up the mosaics. Some of the billboards appeared in animated form, as below:

(Note that the following video has no narration. Access audio description using the widget below the video.)

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=596#oembed-1

You can view the text alternative for"Clear Channel: Where brands meet people" (opens in new window).

Marketing campaigns may also adopt themes that refer to a stage in the product life cycle, such as McDonald's

1. *Clear Channel: Where brands meet people.* (n.d.). Behance. https://www.behance.net/gallery/29879405/Clear-Channel-Where-brands-meet-people

2015 "All-Day Breakfast" rollout campaign. Some organizations use the same theme for several campaigns; others develop a different theme for each new campaign.

In a successfully operated campaign, all activities will be well-coordinated to build on one another and increase the overall impact. For example, a single campaign might include:

- **Advertising:** A series of related, well-timed, carefully placed television ads coupled with print advertising in selected magazines and newspapers
- **Direct marketing:** Direct-to-consumer mail pieces sent to target segments in selected geographic areas, reinforcing the messages from the ads
- **Personal selling:** Preparation for customer sales representatives about the campaign to equip them to explain and demonstrate the product benefits stressed in advertising
- **Sales promotions:** In-store display materials reflecting the same messages and design as the ads, emphasizing point-of-sale impact
- **Digital marketing:** Promotional information on the organization's Web site that reflects the same messages, design, and offers reflected in the ads; ads themselves may be posted on the Website, YouTube, Facebook, and shared in other social media
- **Public relations:** A press release announcing something newsworthy in connection to the campaign focus, objectives, and target segment(s)

For each IMC campaign, new display materials must be prepared, all reflecting common objectives, messages, design, and other elements to maximize the campaign's impact.

People responsible for the physical delivery of the products or services must ensure that the distribution points are well stocked and equipped to deliver in all outlets prior to the start of the campaign. People managing public and media relations should be constantly kept aware of marketing planning, allowing them to identify and coordinate opportunities for earned media attention. Because public relations deals with media, conference/event organizers, and other stakeholders outside the organization, it is extremely important to give enough lead time for the public relations effort to take advantage of optimal timing in support of the overall campaign.

12.3 DEFINING THE MESSAGE

Learning Objectives

- Explain the role of consistent messaging in strengthening the impact of marketing communications
- Outline a standard framework for developing messaging for marketing communications
- Explain the importance of including a clear call to action in marketing communications
- Discuss how to develop effective messaging for marketing communications

At the center of any successful marketing activity is a message. Without a solid, consistent message, your marketing efforts are like a compass without an arrow: there is nothing to point your target audiences in the direction you want them to go.

Good messaging takes time and attention to develop, but this effort pays a huge dividend down the road—when your marketing activities have their desired effect on the hearts, minds, and wallets of the people you want to reach.

Learning Activities

- Reading: Defining the Message
- Self Check: Defining the Message

Why the Message Matters

A clear, consistent message can be the difference between a phenomenally successful marketing campaign and an utter waste of time and money. If you, as a marketer, have not defined your message clearly, how likely is it that your target audiences will get the message you want them to hear? Answer: Not very likely.

With IMC campaigns bringing together multiple communication tools and touchpoints, the impact of a consistent, effective message is compounded when it reaches the people you're targeting again and again through different channels. Conversely, in the absence of a clear message, a campaign results in miss after miss after miss in terms of getting your message to your target audience—and it means wasted effort and resources.

The Role of Messaging

In marketing, the term "messaging" refers to how an organization talks about itself and the value it provides. Related to positioning, messaging is an approved set of key points or messages an organization uses to communicate about something with a target audience. Messaging translates a positioning statement into a set of convincing "key message" statements. Marketers use these statements to develop materials for marketing communications such as ad slogans, advertising copy, social media posts, press releases, presentation scripts, and so forth. Messaging documents are a blueprint for what all the other materials–and people–should communicate.

Organizations may create messaging for different purposes. Corporate messaging communicates about the purpose and value a company provides to the market. Brand messaging focuses on how and what to communicate about a company, product, or service brand. Product messaging expresses key selling points about a product. Crisis messaging outlines talking points for how an organization communicates about an unfortunate development, such as a service interruption or a public scandal.

Messaging ensures that everyone in an organization who needs to communicate something with the market can do it with a common set of messages and a common understanding of what the market should hear from them. While messaging is usually created by the marketing team, it may be used by individuals and teams across a company, from executive leaders to product managers, sales representatives and other groups, in addition to the marketing team itself.

Messaging is an essential ingredient for a successful marketing campaign. A campaign may use existing messaging if its goal is tied to a topic for which messaging has already been developed. For example, existing brand messaging might be used to develop a brand awareness campaign. If no suitable messaging exists, marketers may need to develop key messages expressly for a campaign.

Developing Key Messages

The key messages that make up a messaging document should do the following:

- Express the main idea you want people to understand and remember about your offering
- Resonate with the audience you are targeting, such that they pay attention and feel what you are saying matters

- Articulate clearly and concisely what you need to communicate about: e.g., what you stand for, why you are different, what value you offer, what problems you solve, etc.

The message content, as well as the voice, tone, and style of the message, may vary widely, depending on the organization's identity and what it wants to accomplish with the communication. All of these elements factor into the key messages and the creation of marketing communication artifacts based on the messaging.

Start with the Basics: What, Who, Why?

Message development starts with doing your homework about what the organization needs to accomplish. Revisit the company goals, objectives, and the marketing strategy to confirm the outcomes that the messaging is designed to help achieve. Consult any related positioning statements the organization has developed, because positioning lays out the foundation for what the organization wants to communicate. As you develop messaging, it's also a good idea to review any brand-platform content, since that content can help reinforce the organization's identity, voice, and values.

Next, confirm the audience(s) for the messaging: who are the target segments and stakeholders you need to reach? Some messaging documents outline different sets of key messages for different audiences, depending on what points are most important or convincing for the audience. For example, when company leaders must communicate publicly about poor quarterly earnings, they develop one set of key messages for investors, another set of key messages for employees, and a third set for customers. All these messages are related to one another, but the most important messages for an investor to hear may be different from what employees need to hear.

Identify keywords and ideas you want to associate with your organization, product, service, or offering. These words and phrases may figure prominently in the messaging you develop, to help it stand out and differentiate your organization. Also, conduct a competitive messaging analysis to capture what key messages, words, and concepts other organizations are using. Your messaging should avoid sounding like everybody else.

Draft Message Statements

With your audience and objectives in mind, begin drafting key message statements. If you could make only a few key points to your target audience, what would those points be? As you write these message statements, keep the following criteria in mind. Key messages should be:

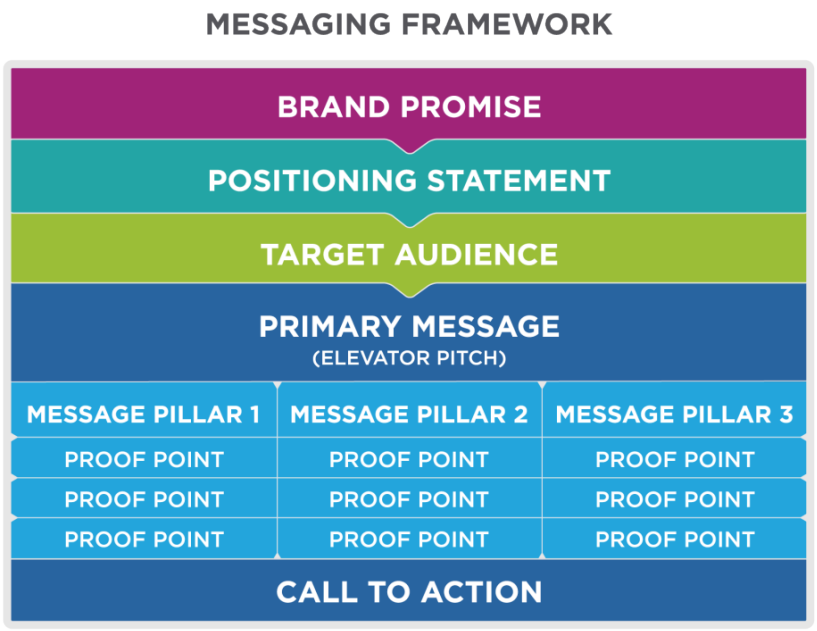
- **Concise:** Key message statements should be clear and concise, ideally just one sentence long–but not a long, run-on sentence.
- **Simple:** Key messages should use language that is easy for target audiences to understand. You should avoid acronyms, jargon, and flowery or bureaucratic-sounding language.
- **Strategic:** Key messages should differentiate your organization and what you stand for, while articulating the value proposition or key benefits you offer.
- **Convincing:** Messaging should include believable, meaningful information that creates a sense of urgency and stimulates action. Message wording should be decisive and active, rather than passive.
- **Relevant:** Key messages should matter to the audience; they should communicate useful, relevant information that the audience finds appealing not only on a logical or rational level but also on an emotional level.
- **Memorable:** Key messages should stick in the mind, so the impression they make is easy to recall.
- **Tailored:** Messaging must communicate effectively with intended target audiences. This means the messaging

should reflect the target audience's unique needs, priorities, issues, terminology, relationship to the organization, and other distinguishing factors that might help the messaging better communicate with that audience.

A tip: Don't worry too much about word-smithing as you develop a first draft of key messages. Get your initial thinking down on paper quickly, and then go back to check against the criteria above as you refine the wording. Remember, you only need a handful of key messages—just one to three well-crafted statements—so don't slave over trying to fill an entire page.

Organize a Messaging Framework

Once you have drafted an initial set of key messages, it is helpful to prioritize and organize them into a framework that helps you tell a coherent story. Marketers use a variety of different frameworks for this purpose. A simple, standard messaging framework is illustrated in the figure below.



Source: Lumen Learning. Defining the Message, in Module 13. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-defining-the-message/

This framework includes key messaging components introduced elsewhere in this course: the brand promise, positioning statement, and target audience. By bringing these elements into the messaging document, it is easy to spot disconnects or confirm alignment between the day-to-day talking points (the primary message and message pillars), the audience, and what the organization stands for (as expressed in the brand promise and positioning statement).

The primary message is sometimes referred to as an **elevator pitch**. Think of it as the one to three sentences you would say to a member of your target audience if you had just thirty seconds with them in an elevator. In that short time, you need to get across the core ideas. As you review the initial key messages you drafted, identify the most important ideas. Refine them into a concise statement that expresses your primary message.

To support this primary message, identify one to three **message pillars** that further substantiate the primary message or elevator pitch. When the elevator pitch is expressing a value proposition, the message pillars are usually the key benefits delivered by the value proposition. When the elevator pitch is arguing a position, the message pillars are the key reasons the target audience should believe what is being argued. To identify your message pillars, review the initial messages you drafted. It is likely that your initial work captures some of those pillars or arguments that provide great support for your primary message.

For each message pillar, identify at least three convincing proof points, or reasons the target audience should believe what you tell them. Proof points may come from a variety of sources: actual statistics or data points from research or your customer base; product features and the benefits they deliver; customers' success stories; and so forth. Their purpose is to provide evidence and add credibility to the messages you want to communicate.

As marketers turn messaging into marketing communication artifacts, the proof points also provide ideas for marketing content: case studies, white papers, advertisement copy, and so forth. They help fill out details around the messaging story you are telling to your target segment(s).

Finally, add a **call to action**. A call to action is an instruction to the target audience about what you want them to do, once they have heard and digested your messages. Usually, it is an imperative verb: *Register now. Try this new product. Visit this place. Vote for this person.* Although each individual marketing communication piece you create for an IMC campaign might have its own specific call to action, it is helpful to decide on an overarching call to action that identifies the behavioral change you want to incite in your target audience. This call to action serves an important role of making sure that the messages do a good job of convincing the target audience to change their behavior and do what you want them to do. If the messaging doesn't seem powerful enough to convince people to take action, you need to revisit the messaging and make it more compelling.

The primary purpose of message architecture is to help you make sure that everything you communicate ultimately ties back to the major points you want audiences to know and believe about you. As you finish filling out your message architecture, review it and check for alignment at each level. Each level of the architecture should provide consistency and support for the other levels. If you spot disconnects, work to refine the messaging so there is strong alignment.

Refine Your Work

After completing your message architecture, set it aside for a day or so. Then come back and go through the following checklist. Make revisions and refinements where needed.

- **Alignment:** Recheck your messaging for alignment. Make sure all levels of the messaging framework are consistent with one another.
- **Hearts and Minds:** Identify where your messaging is working at a rational level and where it's working at an emotional level. To be compelling enough to spark a change in behavior, it must appeal to both.
- **Strategy:** Confirm that the messaging complements your organizational, marketing, and brand strategies. If it isn't getting you further along those paths, it isn't doing its job.
- **Differentiation:** Review your messaging with competitors in mind. Your messaging should set you apart and express messages only you can credibly own. It should be more than just "me, too" catch-up to the competition.
- **Tone:** When you read your messages out loud, your language should sound natural and conversational. Your messaging should ring true; it should sound like it genuinely comes from your organization and the people who represent you.

- **Clarity:** If parts of your messaging sound vague or unclear, look for ways to reword them to make them more concise and concrete. People hearing the message should easily understand exactly what you mean.
- **Inspiration:** Your messaging should motivate and inspire your target audiences to take action. If it isn't compelling enough to do that, you need to make it stronger.

Once you have completed your messaging framework, test the messages with colleagues and internal stakeholders, as well as with members of your target segment(s). You can do this formally using marketing research techniques, or you can test the messages informally by using them in conversations and gauging whether they produce the desired reaction. Testing helps you figure out quickly what's working and where there is room for improvement.

Once your messaging framework is complete, you can apply it immediately to marketing campaigns and IMC activity. You should revisit the messaging periodically to make sure it's still having an impact on your target audiences and helping you achieve your goals.

A Messaging Framework Example

The simple messaging framework shown in Figure 1, above, is easy to use for a variety of different messaging purposes. It can also easily be adapted to include other elements that marketers decide are important to the organization and alignment of messaging.

Highfive's Messaging

Let's take a look at the messaging framework for Highfive, a video conferencing company. The goal of this messaging is to convey the central value proposition of the company and its conferencing product, and it demonstrates good alignment across different components of the messaging.[1]

- **Brand Promise:** Video conferencing you can actually love
- **Positioning Statement:** Highfive is the first video conferencing product designed to connect every employee and every conference room in your entire company
- **Target Audience:** 1, C-level Executive (influencer); 2, Director of IT (buyer); and 3, End-user (user)
- **Mission:** Our mission is to make every conversation face-to-face
- **Tone of Voice:** Empowering, progressive, human, and cheeky
- **Elevator Pitch:** Highfive is video conferencing you can actually love. We believe teams work best face-to-face. That's why we designed the first video conferencing product designed to connect every person and room in an organization. Highfive provides an all-in-one video conferencing hardware device that plugs into any TV screen, turning any ordinary meeting room into a video room. Highfive also provides cloud apps, which allow employees and guests to simply click a link

1. *How to create brand messaging that really resonates.* (2020, April 15). .Salesforce Pardot. https://www.pardot.com/blog/how-to-create-brand-messaging-that-really-resonates/.

from any laptop or mobile device and instantly connect face-to-face with anyone, anywhere. The hardware device costs the same as a high-end iPad and the cloud apps are free. We think video shouldn't be a boardroom luxury. It should be available everywhere.

- **Brand Pillars**
    - Easy
        - **Headline benefits:** Highfive is beautifully simple video conferencing you can start or join with a single click.
        - **Supporting examples:** Join calls from your calendar, SMS, or email by clicking a URL, hand off video calls from your personal device to a meeting room TV with a swipe or click—no remote control needed. 5-minute plug and play setup.
    - Everywhere
        - **Headline Benefits:** Twenty conference rooms for the price of one Cisco or Polycom system.
        - **Supporting Examples:** Comparable systems cost, about 15 thousand per room. At the price of an iPad, Highfive can be deployed in every room. Free apps let people stay connected at their desks or on the go.
    - Enterprise
        - **Headline Benefits:** Built for businesses, not social networking.
        - **Supporting Examples:** Must sign up with work email address, domain-based security model, enterprise reliability and security built by the same people that built Google Apps for Business.

In this example, marketers have left out the call to action, but they have introduced other components around which they want strong alignment: the company mission and brand voice. The rather long elevator pitch is well supported by clear, compelling message pillars, and the messaging offers ample proof points in the form of product features that substantiate the messaging claims. The messaging itself offers both rational reasons to believe the message (e.g., "simple conferencing you can start or join with a single click") and emotional benefits to inspire action (e.g., "video conferencing you can actually love . . ."). Finally, the overall tone of the messaging demonstrates strong alignment with the company's brand identity.

12.4 DETERMINING IMC OBJECTIVES AND APPROACH

Learning Objectives

- Discuss the AIDA model and the role of marketing communications to help move contacts toward a purchasing decision.
- Describe push vs. pull marketing strategies
- Explain the S.M.A.R.T. model for developing IMC goals and objectives
- Discuss the process of selecting marketing communication methods and tactics to fit the target audience and marketing objectives
- Explain factors to consider when selecting marketing communication methods to execute the strategy

It's clear that with the growing proliferation of communication tools and methods, integrated marketing communications are the way of the future—and now. Seemingly every day brings a new social media tool or digital marketing technique to engage people in new ways. Traditional marketing communications methods and media are also stepping up their games, offering new ways to create value for companies trying to connect with their target audiences. For example, old-school conferences and trade shows now feature active mobile and social media elements that have been incorporated into their design. TV shows can sell ad space and sponsorship on air, online, and on social media feeds. Radio programs publish their podcast counterparts, complete with ads and sponsors.

For marketers, all this is great news: plenty of choices and ample opportunity to connect with customers in new ways.

But is it great news? The variety of marketing communication methods and tools can be overwhelming. How do you even get started designing an IMC program? And once you have picked an approach, how do you know you're on the right track?

These are big questions marketers ask themselves regularly. Because marketing is a constantly evolving field, the right answer on one day might be different six months later. However, there are time-tested models that can help you apply a systematic approach to defining what you want to accomplish with IMC and how to select an approach that is best suited to your objectives.

Learning Activities

- Reading: Determining IMC Objectives and Approach
- Video: Prioritizing Marketing Communications

Laying the Foundation for Effective Marketing Campaigns

To use integrated marketing communication (IMC) effectively in marketing campaigns, marketers go through several planning steps to define precisely what they want to accomplish and with whom. Only with this information can they be sure they are identifying the right message and promotional mix to achieve their goals.

Standard marketing campaign planning steps include the following:

- Determine the target market
- Determine purpose and objectives for the IMC campaign
- Set S.M.A.R.T. goals
- Define the message
- Select marketing communications methods and tools
- Determine the promotional mix: which tools to use, when, and how much
- Execute the campaign
- Measure results and refine approach, as needed

Step 1: Determine Target Market

In the segmentation and targeting module, as well as in other sections of this course, we've discussed the critical importance of clearly identifying the target market or the set of market segments an organization plans to focus on. A marketing plan may include one or more campaigns focused on one or more target segments. Some campaigns may focus on achieving specific goals for a single segment. Other campaigns may focus on a common set of goals using a variety of IMC activities targeting different segments.

In any case, clearly defining the audience for IMC activities is an essential input. This is because different market segments use different types of media, and they may have other distinctive characteristics that impact the effectiveness of a marketing activity. For example, in 2020, Facebook reached 59 percent of the world's social networking population. Its usage is growing among older Americans: 52 percent of North Americans aged 55 and overused Facebook (compared with 20 percent in 2012). Meanwhile, 23.5 percent of Facebook users are under 25 (with an additional 32.4 percent of users aged 25–34)—for a total of 55.9 percent of users under 35.[1]

Your decision about whether to use Facebook in an IMC campaign should depend, in part, on what proportion of the target audience you can reach with this tool. Understanding your target segment(s) and their communication

1. Newberry, C. *47 Facebook Stats That Matter to Marketers in 2021*. (2021, January 11). Hootsuite Social Media Management. https://blog.hootsuite.com/facebook-statistics/.

and media habits will make a huge difference in your ability to design IMC programs to reach the people you want to reach.

Step 2: Determine Marketing Campaign Objectives

Once the audience is defined, the next essential step for a successful marketing campaign is to define what the campaign will accomplish with its IMC efforts. Although many marketing campaigns may be oriented toward a single objective, it is possible for an IMC program to accomplish more than one objective at a time, so long as this doesn't create confusion for your target audiences.

The objectives should explain the following two items:

1. the impact of campaign activity on target audiences
2. the ultimate results or outcomes that align with the organization's marketing strategy and corporate goals

While the objective of a marketing campaign often involves increasing sales, this does not necessarily have to be an objective. An entire campaign might focus primarily on building awareness and persuading people to engage with a product or brand in some way, as a stepping-stone towards generating demand and increasing sales.

A good place to help with thinking through campaign objectives is to consider the cognitive stages a customer goes through as they become aware of and eventually decide to buy a brand, product, or service. Many marketers use the *AIDA model* to guide this thinking and help them pinpoint campaign objectives for a given audience.

Communicating with Target Segments: The AIDA Model

AIDA is an acronym marketers use to help them develop effective communication strategies and connect with customers in a way that better responds to their needs and desires. Credited to the American advertising and sales pioneer, Elias St. Elmo Lewis, the model originally applied mainly to advertising. AIDA describes a common list of events that occur when a consumer views an advertisement or other marketing communication. As marketing communication methods have evolved, the model has been used to encompass other marketing tools and channels as well.

The letters in the AIDA acronym stand for the following:

- ***A*** represents *attention* or *awareness*, and the ability to attract the attention of the consumers.
- ***I*** is *interest* and points to the ability to raise the interest of consumers by focusing on and demonstrating advantages and benefits (instead of focusing on features, as in traditional advertising).
- ***D*** represents *desire*. The advertisement convinces consumers that they want and desire the product or service because it will satisfy their needs.
- ***A*** is *action*. Consumers are led to take action by purchasing the product or service.

The system helps guide marketers to refine their objectives and clarify what they want to accomplish with a target

segment. As campaign objectives become clearer, marketers gain insight into ways of refining their marketing messages and deciding which tools they can use to deliver these messages effectively.

The table, below, identifies typical campaign objectives associated with each stage of the AIDA model. Note that the largest group of prospective customers appears in the first stage of the model: Awareness. As the sales cycle progresses, a percentage of prospects is lost at each stage.

Let's take a look at typical campaign objectives in each stage:

- **Awareness:** Build awareness to motivate further action
  - Develop brand awareness and recognition
  - Increase traffic to physical or virtual stores, Web sites, or other channels
  - Remind customers about a brand, product, service or category
- **Interest:** Generate interest by informing about benefits; shaping perceptions
  - Differentiate a product, stressing benefits and features not available from competitors
  - Provide more information about the product or the service because information may be correlated with greater likelihood of purchase
  - Increase demand for a specific product or a product category; generate enough interest to research further
- **Desire:** Create desire; move from "liking" to "wanting"
  - Build brand equity by increasing customer perceptions of quality, desirability, and other brand attributes
  - Stimulate trial, an important step in building new brands and rejuvenating stagnant brands
  - Change or influence customer beliefs and attitudes about a brand, product, or category, ideally creating an emotional connection
- **Action:** Take action toward purchasing
  - Reduce purchase risk to make prospective customers feel more comfortable buying a new or unfamiliar product or brand
  - Encourage repeat purchases in the effort to increase usage and brand loyalty
  - Increase sales and/or market share, with the goal of broadening reach within a time period, product category, or segment

Mini and the AIDA Model

Car marketing is a prime example of using the AIDA model to narrow the target market and get results. Marketers in the automotive industry know their advertisements and other marketing communications must grab the attention of consumers, so they use colours, backgrounds, and themes that would appeal to them. Next, automotive marketers pique interest by showing the advantages of owning the car. In the case of the Mini, for instance, marketers imply that a small car can drive the consumer to open spaces and to fun.

Advertisers can target a precise market by using the AIDA model to identify a narrow subset of consumers that may be receptive to the product offering. Car advertisements are especially made to grab attention, pique interest, meet desires, and evoke action in consumers. Source: Lumen Learning. Determining IMC Objectives and Approach, in Module 13. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-determining-imc-objectives-and-approach/

Third, automotive marketers speak to what their consumers desire. For Mini drivers, it's the "fun" of driving, while for Prius consumers it may be the fuel economy or the environmental friendliness. Only after evaluating consumer desires are marketers able to create effective campaigns. Lastly, marketers use advertising and other methods, such as sales promotions, to encourage consumers to take action by purchasing the product or service.

Push versus Pull Promotion Mix Strategies

Push and pull strategies are promotional strategies used to get the product to its target market. A **push strategy** places the product in front of the customer, to make sure the consumer is aware of the existence of the product. Push strategies also create incentives for retailers to stock products and put them in front of the customer. Examples of push tactics include:

- Point-of-sale displays that make a product highly visible to consumers
- Product demonstrations to show off a product's features to potential customers at trade shows and in showrooms
- Retailer incentives to stock and sell products, such as discounted bulk pricing
- Negotiations with a retailer to stock a specific item in limited store space, along with proof points the product will sell
- Creating a supply chain for distribution that ensures retailers can obtain the product in sufficient quantities

Push strategies work best when companies already have established relationships with users. For example, cell phone providers proactively send (i.e., push) advertisements via text messages to mobile customers regarding promotions and upgrades. This permission-based marketing can become particularly effective when push tactics and offers are personalized to the user based on individual preferences, usage, and buying behavior.

A **pull strategy** stimulates demand and motivates customers to actively seek out a specific product. It is aimed primarily at the end-users, rather than retailers or other middle players in the value chain. Pull strategies can be particularly successful for strong, visible brands with which consumers already have some familiarity. Examples of pull tactics include:

- Mass-media advertising and promotion of a product
- Marketing communications with existing customers to make them aware of new products that will fill a specific need
- Referrals and word-of-mouth recommendations from existing customers
- Product reviews from opinion leaders
- Sales promotions and discounts

Using these strategies creates a demand for a specific product. With pull tactics stoking demand, retailers are then encouraged to seek out the product and stock it on their shelves. For instance, Apple successfully uses a combination of pull strategies to launch iPhones or iPads. The music industry has shifted strongly toward pull strategies due to digitization and the emergence of social networking Web sites. Music platforms such as iTunes, Grooveshark, and Spotify all reflect a power shift toward music consumers exploring and demanding music they want, rather than music producers controlling what is available to whet music lovers' appetites. Likewise, music retailers have adapted their strategies toward pulling in consumers to seek out products.

Most businesses use a combination of push and pull strategies in order to successfully market their products, services and brands. As marketers define the objectives they want marketing campaigns and IMC to accomplish, they can determine whether "push," "pull," or a combination of both will be most effective. This helps guide their choices around which marketing communication methods and tools to use.

Engagement Strategies

In the age of IMC, it is essential for marketers to think creatively about what they are trying to accomplish with target customers through the campaign. Beyond just "pushing" a product through channel partners or "pulling" a customer in through advertising and awareness-building, marketers should consider how the campaign will draw attention, make an impact, and invite target audiences to take action amidst a crowded marketplace. Exposure alone is no longer sufficient to create brand equity and loyalty; interaction is now the name of the game.

Marketers today have many different avenues for creating engagement opportunities focused on making a desired impact in the mind–and behavior–of the customer. By thinking through campaign objectives at this level, marketers can better pinpoint not only a winning strategy for the campaign, but also the types of IMC tactics and tools to help them deliver the desired results. For example:

Engagement Strategies

Campaign Strategy	Well-suited IMC Tactics, Tools
Interact	Social media, events, guerrilla marketing efforts
Engage	Word-of-mouth recommendations, viral sharing, social media
Embrace	Brand community, social media, events, sales promotions, viral sharing
Influence	Public relations, thought leadership activities, personal selling
Convince	Case studies, testimonials, comparisons, free trials, samples
Educate	Advertising, thought leadership activities, public relations, website and other content marketing
Inspire	Testimonials, guerrilla marketing, events, advertising, case studies
Nurture	Email marketing, content marketing, personal selling

Source: Lumen Learning. Determining IMC Objectives and Approach, in Module 13. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-determining-imc-objectives-and-approach/

Step 3: Set S.M.A.R.T. Goals

After determining campaign objectives, marketers should set specific goals for their IMC programs using **S.M.A.R.T.** criteria aligned with the marketing strategy. S.M.A.R.T. is acronym organizations and managers use to set clear, measurable goals. Used in the business world inside and outside marketing, S.M.A.R.T. comes from the work of George T. Doran.[2] He proposed that each level of the organization should set goals that are:

- **S**pecific: target a specific area for improvement
- **M**easurable: quantify or at least suggest an indicator of progress
- **A**ssignable: specify who will do it
- **R**ealistic: state what results can realistically be achieved, given available resources
- **T**ime-related: specify when the result(s) can be achieved

S.M.A.R.T. goals help ensure clarity about what will be accomplished with a marketing campaign or other activity. They also contribute to good communication between managers and employees, so that there are clear expectations on all sides about the focus of attention, resources, and results.

2. Wikipedia: https://en.wikipedia.org/wiki/SMART_criteria

Making a SMART Goal

Consider the following example of a S.M.A.R.T. marketing campaign goal:

> The Atlantic Canada Campaign, implemented by the marketing team in conjunction with the Atlantic Canada sales lead, will use customer referrals, conference appearances, content marketing tactics, and personal selling to identify and develop five new medium-to-large businesses to pilot our new technology product by September 1, 2016.

This goal is:

- **S**pecific: It focuses on identifying new business opportunities to pilot a new product in Atlantic Canada
- **M**easurable: It specifies a goal of developing "five new medium-to-large businesses" to pilot the new product
- **A**ssignable: It designates the ownership of this goal between the marketing team and the Atlantic Canada sales lead
- **R**ealistic: It states the resources and techniques that will be used to achieve the goal, and the size of the goal appears to be well proportioned to the time and resources available
- **T**ime-related: The end date for achieving the results is clear: September 1, 2016

Using the S.M.A.R.T. format helps marketers map IMC activities directly to broader marketing goals and strategy. It also sets the stage for being able to monitor progress and adjust the campaign's approach and tactics midstream if the initial efforts are falling short or getting off track.

Step 4: Define the Message

With the marketing campaign's objectives determined and goals defined, marketers can revisit and refine campaign messaging to fit the approach they have selected. Refer to the "Defining the Message" section of this module for further guidance and recommendations around developing a messaging framework and getting the messaging right.

Part of the messaging is the call to action. As marketers hone in on the marketing communication methods and tools they will use, each touchpoint should include a call to action aligned with the campaign strategy and goals. The calls to action should be appropriate to the AIDA model stage, the audience, and the tool being used. For example, as a prospective customer progresses through the sales cycle, the following set of appropriate calls to action might be built into Web content:

- **A**wareness: Click on a paid search ad to visit a Web site and view a product description and comparative product review
- **I**nterest: Download a white paper outlining how a product offers a novel solution to a common business problem

- **D**esire: Request a product demonstration
- **A**ction Stage: Request a proposal and price quote

Step 5: Select Marketing Communication Methods

As marketers consider marketing communication methods, several factors shape their choices:

Budget

What is the budget for the marketing campaign, and what resources are available to execute it? A large budget can incorporate more expensive marketing communication techniques—such as mass-market advertising and sales promotions—a larger scale, a broader reach, and/or a longer time frame. A small-budget campaign might also be very ambitious, but it would rely primarily on in-house labor and existing tools, such as a company's Web site and content marketing, email marketing, and social media capabilities. It's important to figure out how to get the biggest impact from the available budget.

Timing

Some IMC methods and tactics require a longer lead time than others. For example, email and Web marketing activities can usually be executed rapidly, often with in-house resources. Conference presentations and events require significantly longer lead time to orchestrate. It's important to choose the tools that will make the biggest impact in the time available.

Audience

Effective IMC methods meet audiences where they are. As suggested above, the media habits and behaviors of the target segments should guide marketers' choices around marketing communication. For example, if you know your target audience subscribes to a particular magazine, visits a shortlist of Web sites to get information about your product category, and follows a particular set of bloggers, your IMC strategy should build a presence in these media. Alternatively, if you learn that 60 percent of your new business comes as a result of Yelp and FourSquare reviews, your marketing campaign might focus on social-media reputation building and mobile touchpoints.

Existing Assets and Organizational Strengths

When considering marketing communications and the promotional mix, marketers should always look for ways to build on and make the best use of existing assets. For example, if a company has a physical store or space, how is it being used to full effect to move prospective customers through the sales cycle? If a company has a well-respected founder or thought leader as an employee, how are marketers using this asset to generate interesting content, educate prospects, differentiate the company, and create a desire for their brand, products, or services? Does the organiza-

tion have a Website and, if so, how does it support each stage of the AIDA model? Organizations should be aware of these strengths and design IMC programs that use them to best advantage. Often these strengths become competitive advantages that competitors cannot easily match or replicate.

Advantages of Various Marketing Communication Methods

Different marketing communication methods lend themselves to particular stages of the AIDA model, push vs. pull strategies, and ways of interacting with customers.

- **Advertising** is particularly well-suited to awareness-building
- **Public relations** activities often focus on generate interest, educating prospective customers and sharing stories that create desire for a product or brand. Similarly, experiential events can create memorable opportunities to interact with product, brands and people.
- **Personal selling** typically focuses at the later stages of the model, solidifying desire and stimulating action
- **Sales promotions,** depending on their design, can be focused at any step of the AIDA model. For consumer products, they often focus on point-of-sale touchpoints to induce buying.
- **Direct marketing** can also be focused at any step of the AIDA model, depending on the design. It is often used to generate interest, providing information or an offer that motivates prospective customers to dig a little deeper and learn more.
- **Digital marketing** offers a plethora of tools that can be deployed at any stage of the AIDA model. Paid digital ads, search optimization and social media word-of-mouth all support awareness-building and generating interest. Blogs, newsletters, digital case studies and customer testimonials can be powerful tools for stoking desire. How the website engages customers through the purchasing process is key to persuading prospects to become customers.
- **Guerrilla marketing**, like digital marketing, can be designed to impact any stage of the AIDA model. It is often used by newcomers for awareness-building, to make an impact in a new market. Marketers also use it frequently for engaging experiential activities that solidify desire and create an emotional bond with the consumer.

Marketers should think creatively about the methods available to them and how they can come together to deliver the overall message, experience, goals and objectives of the campaign. Fortunately, if marketers plan well, they also have the opportunity to evaluate effectiveness and revise the approach to improve outcomes.

Step 6: Determine the Promotional Mix

Once marketers have selected marketing communications methods, the next step is to decide which specific tools to employ, when, and how much. IMC programs are very powerful when they layer communication channels and methods upon one another—it's an approach that amplifies and reinforces the message. The next section of this module goes into much more detail about marketing communication methods, common tools associated with each method, and when/how to use these tools most effectively.

Step 7: Execute the Campaign

The final sections of this module provide recommendations for how to create effective communication and marketing plans that simplify execution and follow-through.

Step 8: Measure Results

Later in this chapter we will also discuss the process of identifying the best means of measuring the success of IMC efforts. Tracking and understanding results is how marketing teams and managers monitor progress and know when they need to adjust course.

As marketers design their IMC activities and marketing campaigns with an eye toward results, accountability, and outcomes, they will benefit from an approach that emphasizes alignment between organizational strategy, marketing strategy, and the day-to-day marketing tactics that execute this strategy.

Given all the different marketing communication tools and opportunities out there, it can be hard to prioritize and choose where to focus your attention and marketing efforts. In this TEDx talk, Google's Nick Scarpino provides a common-sense framework to help you make the biggest impact with whatever marketing resources are available to you.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=606#oembed-1

You can view the transcript for "A Guide for Prioritizing Marketing Communications: Nick Scarpino at TEDxUofIChicago" here (opens in new window).

12.5 MARKETING COMMUNICATION METHODS

Learning Objectives

- Explain Advertising
- Explain Public Relations
- Explain Sales Promotions
- Explain Personal Selling
- Explain Direct Marketing
- Explain Digital Marketing
- Explain Guerrilla Marketing
- Describe common methods of marketing communication, their advantages and disadvantages

A common challenge for people new to marketing is learning about the many marketing communication tools and methods now available and understanding how to use them effectively. Fortunately, most of us have first-hand experience of being on the receiving end of IMC—whether you like it or not, you are a consumer, and you've been the target of all kinds of marketing communication. You know the difference between an ad that gets your attention and one you just tune out, for example. You are familiar with the line between "persistent" and "annoying" when it comes to getting marketing-related emails or text messages. You recognize which buy-one-get-one-free offers are a great deal, and which ones seem like a racket.

All this experience will come in handy in this section and later in the course. You're getting closer to being on the other side of the wall, where you'll be tasked with using marketing communication methods and tools to devise your own marketing plan (in the last module of this course!). In this section, though, you'll get a chance to examine each of these marketing communication methods one by one. Fortunately, the underlying principles we've discussed up to this point apply to all of them: knowing your audience, defining strategy, setting objectives, crafting the message. Where paths diverge is in the tools themselves: how to design a great ad, how to produce a memorable event, how to get coverage for your organization in the news media, how to use email and social media skillfully for marketing purposes, and so on.

The next several readings provide a general overview of seven important marketing communication methods (shown in Figure 1, below) in common use today. This section will help you become familiar with each method, common tools associated with each method, how to use these methods effectively, and the advantages and disadvantages of each one. Some marketing professionals spend entire careers becoming specialists in one or more of these areas. Other marketers become generalists who are skilled at bringing together different tools–and experts–to execute effective IMC programs.

Figure 1. The Promotion Mix. Source: Lumen Learning. Marketing Communication Methods, in Module 13. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/outcome-marketing-communication-methods/

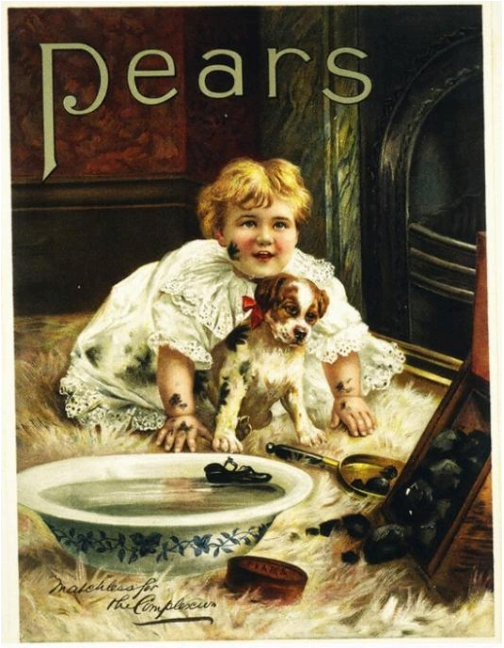
Whether you think you're more of a generalist or a specialist, marketing offers great opportunities for creativity and experimentation. There will always be a new idea, strategy, tool, or combination of tactics that marketers can turn into IMC magic for their companies and their customers. As you learn about and gain experience with the basic tools and approaches, you'll see opportunities to try something new. And you should: in the marketing world, fresh is good!

Learning Activities

- Reading: Advertising
- Reading: Public Relations
- Reading: Sales Promotions
- Reading: Personal Selling
- Reading: Direct Marketing
- Reading: Digital Marketing
- Reading: Guerrilla Marketing
- Simulation: Integrated Marketing
- Self Check: Marketing Communication Methods

Advertising: Pay to Play

Advertising is any paid form of communication from an identified sponsor or source that draws attention to ideas, goods, services or the sponsor itself. Most advertising is directed toward groups rather than individuals, and advertising is usually delivered through media such as television, radio, newspapers and, increasingly, the Internet. Ads are often measured in **impressions** (the number of times a consumer is exposed to an advertisement).



A 1900 advertisement for Pears soap. Pears Soap ad. Provided by: Wikimedia. Located at: https://commons.wikimedia.org/wiki/File:Pears_Soap_1900.jpg. License: Public Domain: No Known Copyright

Advertising is a very old form of promotion with roots that go back even to ancient times. In recent decades, advertising practices have undergone significant changes as new technologies and media have enabled consumers to bypass traditional advertising venues. From the invention of the remote control, which allows people to ignore advertising on TV without leaving the couch, to recording devices that let people watch TV programs but skip the ads, conventional advertising is on the wane. Across the board, television viewership has fragmented, and ratings have fallen.

Print media are also in decline, with fewer people subscribing to newspapers and other print media and more people favouring digital sources for news and entertainment. Newspaper advertising revenue has declined steadily since 2000.[1] Advertising revenue in television is also soft, and it is split across a growing number of broadcast and cable networks. Clearly, companies need to move beyond traditional advertising channels to reach consumers. Digital media outlets have happily stepped in to fill this gap. Despite this changing landscape, for many companies, advertising remains at the forefront of how they deliver the proper message to customers and prospective customers.

The Purpose of Advertising

Advertising has three primary objectives: to inform, to persuade, and to remind.

- **Informative Advertising** creates awareness of brands, products, services, and ideas. It announces new products and programs and can educate people about the attributes and benefits of new or established products.
- **Persuasive advertising** attempts to convince customers that a company's services or products are the best, aiming to alter perceptions and enhance the image of a company or product. Its goal is to influence consumers

1. Weissman, J. (2014, April 28). *The decline of newspapers hits a stunning milestone.* Slate. http://www.slate.com/blogs/moneybox/2014/04/28/decline_of_newspapers_hits_a_milestone_print_revenue_is_lowest_since_1950.html

to take action, such as switching brands, trying a new product, or remaining loyal to a current brand.

- **Reminder Advertising** reminds people about the need for a product or service, as well as the features and benefits it will provide when purchased promptly.

Left: Informative Advertising. Screenshot Rogue Voodoo Porter Ad. Provided by: Rogue Ales and Spirits. Located at: https://www.rogue.com/. License: All Rights Reserved. License Terms: Fair Use
Right: Naked Juice Ad. Provided by: Naked Juice. Located at: https://www.nakedjuice.com/. License: All Rights Reserved. License Terms: Fair Use

Reminder Advertising. Got Milk?. Provided by: Wikimedia. Located at: https://commons.wikimedia.org/wiki/File:Gotmilk.png. License: Public Domain: No Known Copyright

When people think of advertising, often **product-focused advertisements** are top of mind—i.e., ads that promote an organisation's goods or services. **Institutional advertising** goes beyond products to promote organisations, issues, places, events, and political figures. **Public service announcements (PSAs)** are a category of institutional advertising focused on social-welfare issues such as drunk driving, drug use, and practising a healthy lifestyle. Usually, PSAs are sponsored by nonprofit organisations and government agencies with a vested interest in the causes they promote.

Advantages and Disadvantages of Advertising

As a method of marketing communication, advertising has both advantages and disadvantages. In terms of advantages, advertising creates a sense of credibility or legitimacy when an organisation invests in presenting itself and its products in a public forum. Ads can convey a sense of quality and permanence, suggesting that a company isn't a fly-by-night venture. Advertising enables marketers to repeat a message at intervals strategically selected. Repetition increases the likelihood that the target audience will see and recall a message, thereby enhancing awareness-building results. Advertising can generate drama and human interest by featuring people and situations that are exciting or engaging. It can introduce emotions, images, and symbols that stimulate desire, and it can show how a product or brand compares favourably to competitors. Finally, advertising is an excellent vehicle for brand building, as it can create rational and emotional connections with a company or offering that translate into goodwill. As advertising becomes more sophisticated with digital media, it is a powerful tool for tracking consumer behaviours, interests, and preferences, allowing advertisers to better tailor content and offers to individual consumers. Through the power of digital media, memorable or entertaining advertising can be shared among friends and go viral, resulting in skyrocketing viewer impressions.

The primary disadvantage of advertising is cost. Marketers question whether this communication method is really cost-effective at reaching large groups. Of course, costs vary depending on the medium, with television ads being very expensive to produce and place. In contrast, print and digital ads tend to be much less expensive. Along with cost is the question of how many people an advertisement actually reaches. Ads are easily tuned out in today's crowded media marketplace. Even ads that initially grab attention can grow stale over time. While digital ads are clickable and interactive, traditional advertising media are not. In the bricks-and-mortar world, it is challenging for marketers to measure the success of advertising and directly link it to changes in consumer perceptions or behaviour. Because advertising is a one-way medium, there is usually little direct opportunity for consumer feedback and interaction, particularly from consumers who often feel overwhelmed by competing market messages.

Developing Effective Ads: The Creative Strategy

Effective advertising begins with the same foundational components as any other integrated marketing communications (IMC) campaign: identifying the target audience and setting clear objectives for the campaign. When advertising is part of a broader integrated marketing communications (IMC) effort, it is essential to consider the strategic role advertising will play in relation to other marketing communication tools. With clarity around the target audience, campaign strategy, and budget, the next step is to develop the **creative strategy** for developing compelling advertising. The creative strategy has two primary components: the *message* and the *appeal*.

The **message** comes from the messaging framework discussed earlier in this module: what message elements should the advertising convey to consumers? What should the key message be? What is the call to action? How should the brand promise be manifested in the ad? How will it position and differentiate the offering? With adver-

tising, it's essential to remember that the ad can convey the message not only through words but also potentially through images, sound, tone, and style.

Effective wordless advertisement. Puma Ad. Provided by: PUMA. Located at: https://us.puma.com/en/us/home. License: All Rights Reserved. License Terms: Fair Use

Marketers also need to consider existing public perceptions and other advertising and messages the company has placed in the market. Has the prior marketing activity resonated well with target audiences? Should the next round of advertising reinforce what went before, or is it time for a fresh new message, look, or tone?

Along with the message, the creative strategy also identifies the **appeal**, or how the advertising will attract attention and influence a person's perceptions or behaviour. Advertising appeals can take many forms, but they tend to fall into one of two categories: *informational* appeal and *emotional* appeal.

The **informational appeal** presents facts and information to assist the target audience in making a purchasing decision. It attempts to generate attention by presenting rational arguments and evidence to persuade consumers to choose a product, service, or brand. For example:

- More or better product or service features: Ajax "Stronger Than Dirt"
- Cost savings: Walmart "Always Low Prices"
- Quality: John Deere "Nothing runs like a Deere"
- Customer service: Holiday Inn "Pleasing people the world over"
- New, improved: Verizon "Can you hear me now? Good."

The following Black+Decker commercial relies on an informational appeal to promote its product. (Note: There is no speech in this video; only instrumental music.)

https://youtube.com/watch?v=w6tqDoJQokM

Text alternative for "Black and Decker 20V MAX" (opens in new window).

The **emotional appeal** targets consumers' emotional needs and wants rather than relying on rational logic and facts. It plays on conscious or subconscious desires, beliefs, fears, and insecurities to persuade consumers and influence their behaviour. The emotional appeal is linked to the features and benefits provided by the product, creating a connection with consumers at an emotional level rather than a rational one. Most marketers agree that emotional appeals are more powerful and differentiating than informational appeals. However, they must be executed well to seem authentic and credible to the target audience. A poorly executed emotional appeal can come across as trite or manipulative. Examples of emotional appeals include:

- Self-esteem: L'Oreal "Because I'm worth it"
- Happiness: Coca-Cola "Open happiness"
- Anxiety and fear: World Health Organisation "Smoking Kills"
- Achievement: Nike "Just Do It"
- Attitude: Apple "Think Different"
- Freedom: Southwest "You are now free to move about the country"
- Peace of Mind: Allstate "Are you in good hands?"
- Popularity: NBC "Must-see TV"
- Germophobia: Chlorox "For life's bleachable moments, there's Chlorox"

The following Heinz Ketchup commercial offers a humorous example of an ad based entirely on an emotional appeal:

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=610#oembed-1

Developing the Media Plan

The media plan is a document that outlines the strategy and approach for an advertising campaign, or for the advertising component in an IMC campaign. The media plan is developed simultaneously with the creative strategy. A standard media plan consists of four stages: (a) stating media objectives; (b) evaluating media; (c) selecting and implementing media choices; and (d) determining the media budget.

Media objectives are normally stated in terms of three dimensions:

- *Reach:* the number of different persons or households exposed to a particular media vehicle or media schedule at least once during a specified time period.
- *Frequency:* the number of times within a given time period that a consumer is exposed to a message.
- *Continuity:* the timing of media assertions (e.g. 10 per cent in September, 20 per cent in October, 20 per cent in November, 40 per cent in December and 10 per cent the rest of the year).

The process of **evaluating media** involves considering each type of advertising available to a marketer and the inherent strengths and weaknesses associated with each medium. The table below outlines key strengths and weaknesses of major types of advertising media. Television advertising is a powerful and highly visible medium, but it is expensive to produce and purchase airtime. Radio is quite flexible and inexpensive, but listenership is lower ,and it typically delivers fewer impressions and a less-targeted audience. Most newspapers and magazines have passed their advertising heydays and today struggle against declining subscriptions and readership. Yet they can be an excellent and cost-effective investment for reaching some audiences. Display ads offer a lot of flexibility and creative options, from wrapping buses in advertising to creating massive and elaborate 3-D billboards. Yet their reach is limited to their immediate geography. Online advertising, such as banner ads, search engine ads, paid listings, pay-per-click links and similar techniques, offers a wide selection of opportunities for marketers to attract and engage with target audiences online. Yet the internet is a very crowded place, and it is difficult to for any individual company to stand out in the crowd.

The evaluation process requires research to assess options for reaching their target audience through each medium and to determine how well a particular message aligns with the audience in that medium. Many advertisers rely heavily on research findings provided by the medium, their own experience, and subjective appraisal to determine the best media for a given campaign.

To illustrate, if a company is targeting young-to-middle-aged professional women to sell beauty products, the person or team responsible for the media plan should evaluate what options each type of media offers for reaching this audience. How reliably can television, radio, newspapers or magazines deliver this audience? Media organisations maintain carefully researched information about the size, demographics, and other characteristics of their viewership or readership.

Cable and broadcast TV networks know which shows are hits with this target demographic and therefore which advertising spots to sell to a company targeting professional women. Likewise, newspapers know which sections attract the eyeballs of female audiences, and magazine publishers understand very well the market niches their publications fit. Online advertising becomes a particularly powerful tool for targeted advertising because of the information it captures and tracks about site visitors: who views and clicks on ads, where they visit and what they search for.

Not only does digital advertising provide the opportunity to advertise on sites that cater to a target audience of professional women, but it can also identify which of these women are searching for beauty products. This allows companies to target these individuals more effectively and provide opportunities for follow-up interaction. The following video further explains how digital advertising targets and tracks individuals based on their expressed interests and behaviours.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=610#oembed-2

You can view the transcript for "Behavioral Targeting" here (opens in new window).

Selection and Implementation

The media planner must make decisions about the media mix and timing, both of which are restricted by the available budget. The media mix decision involves choosing the best combination of advertising media to achieve the

campaign's goals. This is a difficult task, and it usually requires evaluating each medium quantitatively and qualitatively to select a mix that optimises reach and budget. Unfortunately, there are few valid rules of thumb to guide this process, in part because it is difficult to compare audiences across different types of advertising media. For example, Nielsen ratings measure audiences based on TV viewer reports of the programs watched, while outdoor (billboard) audience-exposure estimates are based on counts of the number of automobiles that pass particular outdoor poster locations. The "timing of media" refers to the actual placement of advertisements during the time periods that are most appropriate, given the selected media objectives. It includes not only the scheduling of advertisements, but also the size and position of the advertisement.

There are three common patterns for advertising scheduling:

- **Continuous** advertising runs ads steadily at a given level indefinitely. This schedule works well for products and services that are consumed on a steady basis throughout the year, and the purpose of advertising is to nudge consumers, remind them and keep a brand or product top-of-mind.
- **Flighting** involves heavy spurts of advertising, followed by periods with no advertising. This type of schedule is ideal for products or services that are seasonal in nature, such as tax services, as well as one-time or occasional events.
- **Pulsing** combines continuous scheduling with flighting to create a constant drumbeat of ads, with periods of greater intensity. This approach matches products and services that have year-round appeal, but may exhibit some seasonality or periods of greater demand or intensity. Hotels and airlines, for example, might increase their advertising presence during the holiday season.

Budget

When considering advertising as a marketing communication method, companies need to balance the cost of advertising–both of producing the advertising pieces and buying placement—against the total budget for the IMC program. The selection and scheduling of media have a huge impact on budget: advertising that targets a mass audience is generally more expensive than advertising that targets a local or niche audience. It is essential for marketers to consider the overall contribution that advertising will make. Although advertising is generally one of the more expensive components of the promotional mix, it may be a worthwhile investment if it substantially contributes to the reach and effectiveness of the entire program. Alternatively, some marketers spend very little on advertising because they find other methods are more productive and cost-effective for reaching their target segments.

Anatomy of an Advertisement

Advertisements use several common elements to deliver the message. The **visual** is the picture, image, or situation portrayed in the advertisement. The visual also considers the emotions, style, or look-and-feel to be conveyed: should the ad appear tender, businesslike, fresh, or supercool? All of these considerations can be conveyed by the visual, without using any words.

The **headline** is generally what the viewer reads first—i.e., the words in the largest typeface. The headline serves as a hook for the appeal, grabbing attention, piquing interest, and prompting the viewer to keep reading or paying attention. In a radio or television ad, the headline equivalent might be the voice-over of a narrator delivering the primary message, or it might be a visual headline, similar to a print ad.

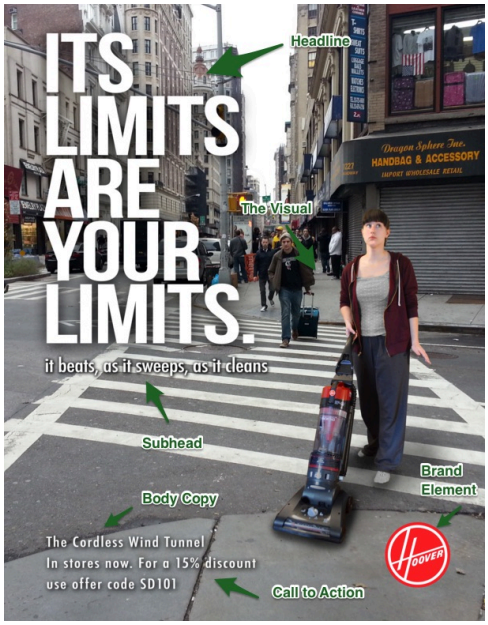
In print ads, a **subhead** is a smaller headline that continues the idea introduced in the headline or provides more information. It typically appears below the headline and in a smaller font size.

The **body copy** provides supporting information. Generally, it appears in a standard, readable font. The **call to action** may be part of the body copy, or it may appear elsewhere in a larger typeface or colour treatment to draw attention to itself.

A variety of **brand elements** may also appear in an advertisement. These include the name of the advertiser or brand being advertised, the logo, a tagline, a hashtag, a website link, or other standard "branded" elements that convey brand identity. These elements play a crucial role in establishing continuity with other marketing communications employed in the IMC campaign or developed by the company. For example, print ads for an IMC campaign might contain a campaign-specific tagline that also appears in television ads, Website content, and social media posts associated with the campaign.

Ad Testing and Measurement

When organizations are poised to make a large investment in any type of advertising, it is wise to conduct marketing research to test the advertisements with target audiences before spending lots of money on ads and messages that may not hit the mark. Ad testing may involve previewing messages and preliminary ad concepts with members of a target segment to determine which ones resonate best and gain insight into how to fine-tune messages or other aspects of the ad to make them more effective. Organisations may conduct additional testing with near-final advertising pieces to do more fine-tuning of the messages and visuals before going public.



Hoover advertisement with ad elements shown. Hoover Ad. Provided by: Hoover. Located at: https://www.hoover.com/. License: All Rights Reserved. License Terms: Fair Use

To gauge the impact of advertising, organisations may conduct pre-tests and post-tests of their target audience to measure whether advertising has its intended effect. A pre-test assesses consumer attitudes, perceptions, and behaviour before the advertising campaign. A post-test measures the same things afterwards to determine how the ads have influenced the target audience, if at all.

Companies may also measure sales before, during, and after advertising campaigns run in the geographies or targets where the advertising appeared. This provides information about the *return on investment* for the campaign, which is the increase in sales relative to the cost of executing the advertising. Ideally, advertising generates more revenue and, ultimately, profits than it costs to mount the advertising campaign.

Advertising Media Strengths and Weaknesses (Source: https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-advertising/)

Advertising Media Type	Strengths	Weaknesses
Television	Strong emotional impact· Mass coverage/small cost per impression Repeat message Creative flexibility Entertaining/prestigious	High costs High clutter (too many ads) Short-lived impression Programming quality Schedule inflexibility
Radio	Immediacy Low cost per impression Highly flexible	Limited national coverage High clutter Less easily perceived during drive time Fleeting message
Newspapers	Flexibility (size, timing, etc.) Community prestige Market coverage Offer merchandising services Reader involvement	Declining readership Short life Technical quality Clutter
Magazines	Highly segmented audiences High-profile audiences Reproduction quality	Inflexible Narrow audiences Waste circulation
Display Ads: Billboards, Posters, Flyers, etc.	Mass coverage/small cost per impression Repeat message Creative flexibility	High clutter Short-lived impression
Online Ads (including mobile): Banner ads, search ads, paid listings, pay-per-click links, etc.	Highly segmented audiences Highly measurable Low cost per impression Immediacy; link to interests, behavior Click thru and code allow further interaction Timing flexibility	High clutter Short-lived impression Somewhat less flexibility in size, format

Public Relations: Getting Attention to Polish Your Image

Public relations (PR) is the process of maintaining a favorable image and building beneficial relationships between an organization and the public communities, groups, and people it serves. Unlike advertising, which tries to create favorable impressions through paid messages, public relations does not pay for attention and publicity. Instead, PR strives to earn a favorable image by drawing attention to newsworthy and attention-worthy activities of the organization and its customers. For this reason, PR is often referred to as "free advertising."

In fact, PR is not a costless form of promotion. It requires salaries to be paid to people who oversee and execute PR strategy. It also involves expenses associated with events, sponsorships and other PR-related activities.

The Purpose of Public Relations

Like advertising, public relations seeks to promote organizations, products, services, and brands. But PR activities also play an important role in identifying and building relationships with influential individuals and groups responsible for shaping market perceptions in the industry or product category where an organization operates. Public relations efforts strive to do the following:

- Build and maintain a positive image
- Inform target audiences about positive associations with a product, service, brand, or organization
- Maintain good relationships with *influencers*—the people who strongly influence the opinions of target audiences
- Generate goodwill among consumers, the media, and other target audiences by raising the organization's profile
- Stimulate demand for a product, service, idea, or organization
- Head off critical or unfavorable media coverage

When to Use Public Relations

Public relations offers an excellent toolset for generating attention whenever there is something newsworthy that marketers would like to share with customers, prospective customers, the local community, or other audiences. PR professionals maintain relationships with reporters and writers who routinely cover news about the company, product category, and industry, so they can alert media organizations when news happens. At times, PR actually creates activities that are newsworthy, such as establishing a scholarship program or hosting a science fair for local schools.

PR is involved in publishing general information about an organization, such as an annual report, a newsletter, an article, a white paper providing deeper information about a topic of interest, or an informational press kit for the media. PR is also responsible for identifying and building relationships with influencers who help shape opinions in the marketplace about a company and its products. When an organization finds itself facing a public emergency or crisis of some sort, PR professionals play an important role strategizing and managing communications with various stakeholder groups, to help the organization respond in effective, appropriate ways and to minimize damage to its public image.

To illustrate, PR techniques can help marketers turn the following types of events into opportunities for media attention, community relationship building, and improving the organization's public image:

- Your organization develops an innovative technology or approach that is different and better than anything else available.
- One of your products wins a "best in category" prize awarded by a trade group.
- You enter into a partnership with another organization to collaborate on providing broader and more complete services to a target market segment.
- You sponsor and help organize a 10K race to benefit a local charity.
- You merge with another company.
- You conduct research to better understand attitudes and behaviors among a target segment, and it yields insights your customers would find interesting and beneficial.
- A customer shares impressive and well-documented results about the cost savings they have realized from using your products or services.
- Your organization is hiring a new CEO or other significant executive appointment.
- A quality-assurance problem leads your company to issue a recall for one of your products.

It is wise to develop a PR strategy around strengthening relationships with any group that is important in shaping or maintaining a positive public image for your organization: reporters and media organizations; industry and professional associations; bloggers; market or industry analysts; governmental regulatory bodies; customers and especially leaders of customer groups, and so forth. It is also wise to maintain regular, periodic communications with these groups to keep them informed about your organization and its activities. This helps build a foundation of familiarity and trust, so these relationships are established and resilient through the ups and downs of day-to-day business.

The following video, about Tyson Foods' "Meals That Matter" program, shows how one company cooked up an idea that is equal parts public relations and corporate social responsibility (CSR). The video covers the Tyson disaster-relief team delivering food to the residents of Moore, Oklahoma, shortly after tornados struck the area on May 20, 2013. The company received favorable publicity following the inauguration of the program in 2012. (You can read one of the articles here: "Tyson Foods Unveils Disaster Relief Mobile Feeding Unit.")

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=612#oembed-1

You can view the transcript for "Tyson Foods Meals That Matter – Moore, Okla., June 2013" here (opens in new window).

Standard Public Relations Techniques

Public relations encompasses a variety of marketing tactics that all share a common focus: managing public perceptions. The most common PR tools are listed in the following table and discussed below.

Public Relations Techniques

Public Relations Technique	Role and Description	Examples
Media Relations	Generate positive news coverage about the organization, its products, services, people, and activities	Press release, press kit, and interview leading to a news article about a new product launch; press conference
Influencer/ Analyst Relations	Maintain strong, beneficial relationships with individuals who are thought leaders for a market or segment	Product review published by a renowned blogger; company profile by an industry analyst; celebrity endorsement
Publications and Thought Leadership	Provide information about the organization, showcase its expertise and competitive advantages	Organization's annual report; newsletters; white papers focused on research and development; video case study about a successful customer
Events	Engage with a community to present information and an interactive "live" experience with a product, service, organization or brand	User conference; presentation of a keynote address; day-of-community-service event
Sponsorships	Raise the profile of an organization by affiliating it with specific causes or activities	Co-sponsoring an industry conference; sponsoring a sports team; sponsoring a race to benefit a charity
Award Programs	Generate recognition for excellence within the organization and/or among customers	Winning an industry "product of the year" award; nominating customer for an outstanding achievement award
Crisis Management	Manage perceptions and contain concerns in the face of an emergency situation	Oversee customer communication during a service outage or a product recall; execute action plan associated with an environmental disaster

Source: Lumen Learning. Public Relations, in Module 13. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-public-relations/

Media relations is the first thing that comes to mind when many people think of PR: public announcements about company news, talking to reporters, and articles about new developments at a company. But media relations is the tip of the iceberg. For many industries and product categories, there are influential bloggers and analysts writing about products and the industry. PR plays an important role in identifying and building relationships with these individuals. Offering periodic "company update" briefings, newsletters, or email updates helps keep these individuals informed about your organization, so you are top of mind.

The people responsible for PR are also involved in developing and distributing general information about an organization. This information may be in the form of an annual report, a "state of the company" briefing call, video pieces about the company or its customers, and other **publications** that convey the company's identity, vision, and goals. "Thought leadership" publications assert the company's expertise and position of leading thought, practice, or innovation in the field. These publications should always be mindful of the same messaging employed for other marketing activities to ensure that everything seems consistent and well aligned.

While some consider event marketing a marketing communication method of its own, others categorize it with public relations as we have done here. **Events**, such as industry conferences or user group meetings, offer opportunities to present the company's value proposition, products, and services to current and prospective customers. Themed events, such as a community service day or a healthy lifestyle day, raise awareness about causes or issues with the organization wants to be affiliated in the minds of its employees, customers, and other stakeholder groups. A well-designed and well-produced event also offers opportunities for an organization to provide memorable interaction and experiences with target audiences. An executive leader can offer a visionary speech to generate excitement

about a company and the value it provides—now or in the future. Events can help cement brand loyalty by not only informing customers but also forging emotional connections and goodwill.

Sponsorships go hand-in-hand with events, as organizations affiliate themselves with events and organizations by signing on to co-sponsor something available to the community. Sponsorships cover the gamut: charitable events, athletes, sports teams, stadiums, trade shows and conferences, contests, scholarships, lectures, concerts, and so forth. Marketers should select sponsorships carefully to make sure that they are affiliating with activities and causes that are well managed and strategically aligned with the public image they are trying to cultivate.

Award programs are another common PR tool. Organizations can participate in established award programs managed by trade groups and media, or they can create award programs that target their customer community. Awards provide opportunities for public recognition of great work by employees and customers. They can also help organizations identify great targets for case studies and public announcements to draw attention to how customers are benefitting from an organization's products and services.

Innovation Award, sponsored by IBM and the United Nations Development Program, being given to given to Kenya's Information and Communication Technology Authority. Source: Lumen Learning. Public Relations, in Module 13. Lumen Publishing. (2016). Principles of Marketing. https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-public-relations/

Crisis management is an important PR toolset to have on hand whenever it may be needed. Few companies choose this as a promotional technique if other options are available. But when crises emerge, as inevitably they do, PR provides structure and discipline to help company leaders navigate the crisis with communications and actions that address the needs of all stakeholders. Messaging, communication, listening, and relationship building all come to the fore. When handled effectively, these incidents may help an organization emerge from the crisis stronger and more resilient than it was before. This is the power of good PR.

Advantages and Disadvantages of Public Relations

Because PR activity is earned rather than paid, it tends to carry more credibility and weight. For example, when a news story profiles a customer's successful experience with a company and its products, people tend to view this type of article as less biased (and therefore more credible) than a paid advertisement. The news story comes from an objective reporter who feels the story is worth telling. Meanwhile an advertisement on a similar topic would be viewed with skepticism because it is a paid placement from a biased source: the ad sponsor.

Advantages of Public Relations[1]

1. **The opportunity to amplify key messages and milestones.** When PR activities are well-aligned with other marketing activities, organizations can use PR to amplify the things they are trying to communicate via other channels. A press release about a new product, for example, can be timed to support a marketing launch of the

1. *How to Establish a Promotional Mix*. (n.d.). Edward Lowe Foundation.http://edwardlowe.org/digital-library/how-to-establish-a-promotional-mix/

product and conference where the product is unveiled for the first time.

2. **Believable.** Because publicity is seen to be more objective, people tend to give it more weight and find it more credible. Paid advertisements, on the other hand, are seen with a certain amount of skepticism, since people that companies can make almost any kind of product claim they want.
3. **Employee pride.** Organizing and/or sponsoring charitable activities or community events can help with employee morale and pride (both of which get a boost from any related publicity, too). It can also be an opportunity for teamwork and collaboration.
4. **Engaging people who visit your Web site.** PR activities can generate interesting content that can be featured on your organization's Web site. Such information can be a means of engaging visitors to the site, and it can generate interest and traffic long after the PR event or moment has passed. Industry influencers may visit the site, too, to get updates on product developments, growth plans, or personnel news, etc.

Disadvantages of Public Relations[2]

1. **Cost.** Although publicity is usually less expensive to organize than advertising, it isn't "free." A public relations firm may need to be hired to develop campaigns, write press releases, and speak to journalists. Even if you have in-house expertise for this work, developing publicity materials can take employees away from their primary responsibilities and drain off needed resources.
2. **Lack of control.** There's no guarantee that a reporter or industry influencer will give your company or product a favorable review—it's the price you pay for "unbiased" coverage. You also don't have any control over the accuracy or thoroughness of the coverage. There's always a risk that the journalist will get some facts wrong or fail to include important details.
3. **Missing the mark.** Even if you do everything right—you pull off a worthy event and it gets written up by a local newspaper, say—your public relations effort can fall short and fail to reach enough or the right part of your target audience. It doesn't do any good if the reporter's write-up is very short or it appears in a section of the paper that no one reads. This is another consequence of not being able to fully control the authorship, content, and placement of PR.

PR and Integrated Marketing Communication

Public relations activities can provide significantly greater benefits to organizations when they happen in conjunction with a broader IMC effort, rather than on their own. Because PR focuses heavily on communication with key stakeholder groups, it stands to reason that other marketing communication tools should be used in conjunction with public relations. For example:

- Press releases can be distributed to media contacts, customers, and other stakeholder groups via email marketing campaigns that might also include additional information or offers—such as an invitation to a webinar to learn more about the subject of the press release.
- Press releases are posted to the Web site to update content and provide a greater body of information for Web

2. *How to Establish a Promotional Mix*. (n.d.). Edward Lowe Foundation. http://edwardlowe.org/digital-library/how-to-establish-a-promotional-mix/

site visitors

- Event presentations and other activities should align with an organization's broader marketing strategy, goals, and messaging. Everything should be part of the same, consistent approach and theme—e.g., the topics of speeches, information available in trade show booths, interactions with event participants via email and social media, etc.
- Sponsorship activities often provide an opportunity to advertise at the event, as well. Naturally, it is important for there to be good alignment between these advertising opportunities, company messaging, and the audience for the sponsored activity.
- A thought-leadership piece, such as an article or a white paper authored by a company leader, can be published on the Web site and incorporated into an email marketing campaign that targets selected audiences

Smart marketers consider PR tools in concert with other marketing activity to determine how to make the greatest impact with their efforts. Because PR activities often involve working with many other people inside and outside the organization, they usually need a long lead time in order to come together in the desired time frame. Event planning happens months (and sometimes years) in advance of the actual event itself. Press releases and public announcements can be mapped out over several months to give marketers and other stakeholders plenty of time to prepare and execute effectively. PR is undoubtedly a powerful toolset to amplify other marketing efforts.

Sales promotion helps make personal selling and advertising more effective. Sales promotions are marketing events or sales efforts (excluding traditional advertising, personal selling, and public relations) that stimulate purchasing. Sales promotion can be developed as part of the social media or e-commerce effort, just as advertising can, but the methods and tactics are much different. Sales promotion is a $300 billion—and growing— industry. Sales promotion is usually targeted toward either of two distinctly different markets. Consumer sales promotion is targeted to the ultimate consumer market. Trade sales promotion is directed to members of the marketing channel, such as wholesalers and retailers.

The goal of many promotional tactics is to encourage immediate purchase. Therefore, it makes sense when planning a sales promotion campaign to target customers according to their general behaviour. For instance, is the consumer loyal to the marketer's product or to the competitor's? Does the consumer switch brands readily in favour of the best deal? Does the consumer buy only the least expensive product, no matter what? Does the consumer buy any products in your category at all?

Procter & Gamble

Procter & Gamble believes shoppers make up their mind about a product in about the time it takes to read this paragraph.

(Credit: Ted Van Pelt/ Flickr/ Attribution 2.0 Generic (CC BY 2.0))

This "first moment of truth," as P&G calls it, is the three to seven seconds when someone notices an item on a store shelf. Despite spending billions on traditional advertising, the consumer-products giant thinks this instant is one of its most important marketing opportunities. It recently created a position entitled Director of First Moment of Truth, or Director of FMOT (pronounced "EFF-mott"), to produce sharper, flashier in-store displays. There is a 15-person FMOT department at P&G headquarters in Cincinnati as well as 50 FMOT leaders stationed around the world.[1]

One of P&G's most prominent in-store promotions has been for a new line of Pampers. In the United States, P&G came up with what it calls a "shopper concept", a single promotional theme that allows it to pitch products in a novel way. The theme for Pampers was "Babies First." In stores, the com-

1. Tincher, J. (2016, August 30). *Your Moment of Truth*. Customer Think. https://customerthink.com/your-moment-of-truth/.

pany handed out information on childhood immunisations, car-seat safety, and healthy diets while promoting its diapers and wipes in other parts of the store. To market Pampers diapers in the United Kingdom, P&G persuaded retailers earlier this year to put fake doorknobs high up on restroom doors, to remind parents how much babies need to stretch.

As shown by Figure 1, pet lovers want the best for their animals, and choosing a proper diet is an essential part of raising happy, healthy pets. That's why many dog food providers such as Purina and Blue Buffalo are creating specific size- and age-appropriate diets for dogs.

Sales Promotion Techniques

Do you like free samples? Most people do. A **sample** is a sales promotion in which a small amount of a product that is for sale is given to consumers to try. Samples encourage trial and an increased awareness of the product. You have probably purchased a product that included a small free sample with it, for example, a small amount of conditioner packaged with your shampoo. Have you ever gone to a store that provided free samples of different food items? The motivation behind giving away samples is to get people to buy a product. Although sampling is an expensive strategy, it is usually very effective for food products. People try the product, the person providing the sample tells consumers about it, and mentions any special pricing or offers for the product.

The objectives of promotion depend on the general behavior of target consumers, as described in Table 1. For example, marketers who are targeting loyal users of their product don't want to change behavior. Instead, they want to reinforce existing behavior or increase product usage. Frequent-buyer programs that reward consumers for repeat purchases can be effective in strengthening brand loyalty. Other types of promotions are more effective with customers prone to brand switching or with those who are loyal to a competitor's product. Cents-off coupons, free samples, or an eye-catching display in a store will often entice shoppers to try a different brand.

The use of sales promotion for services products depends on the type of services. Consumer services, such as hairstyling, rely heavily on sales promotions (such as providing half off the price of a haircut for senior citizens on Mondays). Professional services, however, use very little sales promotion. Doctors, for example, do not often use coupons for performing an appendectomy, for example. In fact, service product companies must be careful not to utilize too many sales-promotion tactics because they can lower the credibility of the firm. Attorneys do not have a sale on providing services for divorce proceedings, for example.

Table 1. Types of Consumers and Sales Promotion Goals (Source: https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-sales-promotions/)

Type of Behaviour	Desired Results	Sales Promotion Examples
Loyal customers: People who buy your product most or all of the time	Reinforce behaviour, increase consumption, and change purchase timing	Loyalty marketing programs, such as frequent-buyer cards and frequent-shopper clubs, bonus packs that give loyal consumers an incentive to stock up or premiums offered in return for proof of purchase
Competitor's customers: People who buy a competitor's product most or all of the time	Break loyalty, persuade to switch to your brand	Sweepstakes, contests, or premiums that create interest in the product
Brand switchers: People who buy a variety of products in the category	Persuade people to buy your brand more often	Sampling to introduce your product's superior qualities compared to their brand
Price buyers: People who consistently buy the least expensive brand	Appeal with low prices or supply added value that makes the price less important	Trade deals that help make the product more readily available than competing products Coupons, cents-off packages, refunds, or trade deals that reduce the price of the brand to match that of the competing brand that would have been purchased

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Two growing areas of sales promotion are couponing and product placement. American consumers receive over $321 billion worth of coupons each year and redeem about $3 billion.[2] Almost 85 per cent of all Americans redeem coupons. Sunday newspaper supplements remain the number one source, but there has been explosive growth of online or consumer-printed coupons. General Mills, Kimberly-Clark, and General Electric like online coupons because they have a higher redemption rate. Coupons are used most often for grocery shopping. Do they save you money? One study found that people using coupons at the grocery store spent eight per cent more than those who didn't.[3]

Figure 3. Whether making a cameo appearance or starring in a major role, brands are top talent in the entertainment world. NASCAR drivers, racing cars, and tracks are speckled with corporate brands, and Coca-Cola sits at the judges' table on American Idol. Does product placement blur the lines between advertising and content, and should viewers be concerned? (Credit: roger blake/ Flickr/ Attribution 2.0 Generic (CC BY 2.0))

Product placement is the paid inclusion of brands in mass media programming. This includes movies, TV, books, music videos, and video games. So when you see Ford vehicles in the latest James Bond movie or Tom Hanks putting on a pair of Nikes on-screen, that is product placement. Product placement has become a huge business. For example, companies paid more than $6 billion in a recent year to have their products featured prominently in a film or television program; that figure is expected to reach over $11 billion by 2019.[4] It is easy to go overboard with this trend and be portrayed as a parody, however. The 2017 *Emoji Movie* is an example of failed product placements. The theme of the movie centred on various emojis caught in a smartphone as they are forced to play Candy Crush and say glowing things about apps like Dropbox and Instagram while navigating their way through the phone.[5] Also, some have suggested that product placement might doom the products and companies. For example, Atari products appeared in the classic 1982 film *Blade Runner. However, the original company went out of business shortly after the movie was released. Another* product, the Cuisinart food processor, had to settle a price-fixing scandal after making an appearance in the film. This has not stopped companies such as Sony, Peugeot, and Coca-Cola from tempting fate by appearing in the recently released *Blade Runner 2049*.[6] Many large companies are cutting their advertising budgets to spend more on product placements. One area of product placement that continues to raise ethical concerns is the practice of paying so-called "experts" to mention brands on the air.

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2. Carter B. (2017, November 15). *Coupon Statistics: The Ultimate Collection*. Access Development. https://blog.accessdevelopment.com/ultimate-collection-coupon-statistics

3. Drew Hendricks, "5 Ways to Enhance Your SEO Campaign with Online Coupons," *Forbes*, https://www.forbes.com

4. Muzellec, L. (2016, June 23). *James Bond, Dunder Mifflin, and the Future of Product Placement*. Harvard Business Review. https://hbr.org/2016/06/james-bond-dunder-mifflin-and-the-future-of-product-placement

5. Terry, J. (2017, July 31). *Unfunny 'Emoji Movie' is a sad echo of 2015's 'Inside Out'*. Deseret News. https://www.deseret.com/2017/7/31/20616700/unfunny-emoji-movie-is-a-sad-echo-of-2015-s-inside-out#gene-t-j-miller-and-hi-5-james-corden-in-the-emoji-movie

6. Steinberg, D. (2017, September 25). *Science Affliction: Are Companies Cursed by Cameos in Blade Runner?* The Wall Street Journal. https://www.wsj.com/articles/science-affliction-are-companies-cursed-by-cameos-in-blade-runner-1506356096

Contests and sweepstakes are also popular consumer sales promotions. **Contests** are games of skill offered by a company that offers consumers the chance to win a prize. Cheerios' *Spoonfuls of Stories* contest, for example, invited people to submit an original children's story and the chance to win money and the opportunity to have their story published. **Sweepstakes** are games of chance that people enter for the opportunity to win money or prizes. Sweepstakes are often structured as some variation on a random drawing. The companies and organisations that conduct these activities hope that consumers will not only enter their games but also purchase more of their products and, ideally, share their information for future marketing purposes. As the following video demonstrates, marketers have become increasingly sophisticated in their approach to this "gaming" aspect of sales promotions.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=614#oembed-1

You can view the transcript for "Gamification" (opens in new window).

Which Sales Promotions Work Best, and When?

Although different types of sales promotions work best for different organisations, rebates are very profitable for companies because, as you have learned, many consumers forget to send in their rebate forms. In a weak economy, consumers tend to use more coupons, but they also buy more store brands. Coupons available online or at the point of purchase are being used more often by consumers. Trade shows can be very successful, although the companies that participate in them need to follow up on the leads generated at the shows.

Advantages and Disadvantages of Sales Promotions[7]

In addition to their primary purpose of boosting sales in the near term, companies can use consumer sales promotions to help them understand price sensitivity. Coupons and rebates provide useful information about how pricing influences consumers' buying behaviour. Sales promotions can also be a valuable (and sometimes sneaky) way to acquire contact information for current and prospective customers. Many of these offers require consumers to provide their names and other information in order to participate. Electronically scanned coupons can be linked to other purchasing data to inform organisations about buying habits. All this information can be used for future marketing research, campaigns and outreach.

Consumer sales promotions can generate loyalty and enthusiasm for a brand, product, or service. Frequent flyer

7. *How to Establish a Promotional Mix.* (n.d.). Edward Lowe Foundation. http://edwardlowe.org/digital-library/how-to-establish-a-promotional-mix/

programs, for example, motivate travellers to fly on a preferred airline even if the ticket prices are somewhat higher. If sales have slowed, a promotion such as a sweepstakes or contest can spark customer excitement and revive interest in the company's offerings. Sales promotions are a good way to energise and inspire customer action.

Trade promotions offer distribution channel partners financial incentives that encourage them to support and promote a company's products. Offering incentives, such as prime shelf space in a retailer's store, in exchange for discounts on products, has the potential to build and enhance business relationships with key distributors or businesses. Improving these relationships can lead to higher sales, stocking of other product lines, preferred business terms and other benefits.

Sales promotions can be a two-edged sword: if a company continually hands out product samples and coupons, it risks tarnishing its brand. Offering too many freebies can signal to customers that they are not purchasing a prestigious or "limited" product. Another risk associated with too-frequent promotions is that savvy customers will hold off on purchasing until the next promotion, thereby depressing sales.

Often, businesses rush to grow quickly by offering sales promotions, only to see these promotions fail to reach their sales goals and target customers. The temporary boost in short-term sales may be attributed to highly price-sensitive consumers seeking a deal, rather than the long-term loyal customers a company aims to cultivate. Sales promotions need to be carefully thought through, designed, and promoted. They also need to align well with the company's larger business strategy. Failure to do so can be costly in terms of dollars, profitability and reputation.

If businesses become overly reliant on sales growth through promotions, they can become trapped in short-term marketing thinking and overlook their long-term goals. If, after each sales dip, a business offers another sales promotion, it can be damaging to the long-term value of its brand.

IMC Support for Sales Promotions

Sales promotions are delivered to targeted groups via marketing campaigns during a pre-set, limited amount of time. To broaden awareness, impact, and participation, sales promotions are often combined with other marketing communication methods in the promotional mix. Examples of IMC support for sales promotions include:

People Power

Personal selling uses in-person interaction to sell products and services. This type of communication is carried out by sales representatives, who are the personal connection between a buyer and a company or a company's products or services. Salespeople not only inform potential customers about a company's product or services, they also use their power of persuasion and remind customers of product characteristics, service agreements, prices, deals, and much more. In addition to enhancing customer relationships, this type of marketing communications tool can be a powerful source of customer feedback, as well. Later we'll cover marketing alignment with the sales process in greater detail. This section focuses on personal selling as one possible tool in the promotional mix.

Effective personal selling addresses the buyer's needs and preferences without making him or her feel pressured. Good salespeople offer advice, information, and recommendations, and they can help buyers save money and time during the decision process. The seller should give honest responses to any questions or objections the buyer has and show that he cares more about meeting the buyer's needs than making the sale. Attending to these aspects of personal selling contributes to a strong, trusting relationship between buyer and seller.[1]

Common Personal Selling Techniques

Common personal selling tools and techniques include the following:

- **Sales presentations**: in-person or virtual presentations to inform prospective customers about a product, service, or organization
- **Conversations**: relationship-building dialogue with prospective buyers for the purposes of influencing or making sales
- **Demonstrations**: demonstrating how a product or service works and the benefits it offers, highlighting advantageous features and how the offering solves problems the customer encounters
- **Addressing objections**: identifying and addressing the concerns of prospective customers, to remove any perceived obstacles to making a purchase
- **Field selling**: sales calls by a sales representative to connect with target customers in person or via phone
- **Retail selling**: in-store assistance from a sales clerk to help customers find, select, and purchase products that meet their needs
- **Door-to-door selling**: offering products for sale by going door-to-door in a neighborhood
- **Consultative selling**: consultation with a prospective customer, where a sales representative (or consultant) learns about the problems the customer wants to solve and recommends solutions to the customer's particular problem
- **Reference selling**: using satisfied customers and their positive experiences to convince target customers to

1. Merchant, P. (n.d.). *Strategic Selling Techniques*. Small Business Chron. http://smallbusiness.chron.com/strategic-selling-techniques-15747.html

purchase a product or service

Personal selling minimizes wasted effort, promotes sales, and boosts word-of-mouth marketing. Also, personal selling measures marketing return on investment (ROI) better than most tools, and it can give insight into customers' habits and their responses to a particular marketing campaign or product offer.

When to Use Personal Selling

Not every product or service is a good fit for personal selling. It's an expensive technique because the proceeds of the person-to-person sales must cover the salary of the sales representative—on top of all the other costs of doing business. Whether or not a company uses personal selling as part of its marketing mix depends on its business model. Most often companies use personal selling when their products or services are highly technical, specialized, or costly—such as complex software systems, business consulting services, homes, and automobiles.

In addition, there are certain conditions that favor personal selling:[2]

- **Product situation**: Personal selling is relatively more effective and economical when a product is of a high unit value, when it is in the introductory stage of its life cycle, when it requires personal attention to match consumer needs, or when it requires product demonstration or after-sales services.
- **Market situation**: Personal selling is effective when a firm serves a small number of large-size buyers or a small/local market. Also, it can be used effectively when an indirect channel of distribution is used for selling to agents or middlemen.
- **Company situation**: Personal selling is best utilized when a firm is not in a good position to use impersonal communication media, or it cannot afford to have a large and regular advertising outlay.
- **Consumer behavior situation**: Personal selling should be adopted by a company when purchases are valuable but infrequent, or when competition is at such a level that consumers require persuasion and follow-up.

It's important to keep in mind that personal selling is most effective when a company has established an effective sales-force management system together with a sales force of the right design, size, and structure. Recruitment, selection, training, supervision, and evaluation of the sales force also obviously play an important role in the effectiveness of this marketing communication method.[3]

Advantages and Disadvantages of Personal Selling

The most significant strength of personal selling is its flexibility. Salespeople can tailor their presentations to fit the needs, motives, and behavior of individual customers. A salesperson can gauge the customer's reaction to a sales approach and immediately adjust the message to facilitate better understanding.

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2. Kakati, W. (2010, September 02). *Personal selling – when and how?* SME Times. http://www.smetimes.in/smetimes/in-depth/2010/Sep/02/personal-selling-when-and-how500001.html

3. Kakati, W. (2010, September 02). *Personal selling – when and how?* SME Times.http://www.smetimes.in/smetimes/in-depth/2010/Sep/02/personal-selling-when-and-how500001.html

Personal selling also minimizes wasted effort. Advertisers can spend a lot of time and money on a mass-marketing message that reaches many people outside the target market (but doesn't result in additional sales). In personal selling, the sales force pinpoints the target market, makes a contact, and focuses effort that has a strong probability of leading to a sale.

As mentioned above, an additional strength of personal selling is that measuring marketing effectiveness and determining ROI are far more straightforward for personal selling than for other marketing communication tools—where recall or attitude change is often the only measurable effect.

Another advantage of personal selling is that a salesperson is in an excellent position to encourage the customer to act. The one-on-one interaction of personal selling means that a salesperson can effectively respond to and overcome objections—e.g., concerns or reservations about the product—so that the customer is more likely to buy. Salespeople can also offer many customized reasons that might spur a customer to buy, whereas an advertisement offers a limited set of reasons that may not persuade everyone in the target audience.

A final strength of personal selling is the multiple tasks that the sales force can perform. For example, in addition to selling, a salesperson can collect payments, service or repair products, return products, and collect product and marketing information. In fact, salespeople are often the best resources when it comes to disseminating positive word-of-mouth product information.

High cost is the primary disadvantage of personal selling. With increased competition, higher travel and lodging costs, and higher salaries, the cost per sales contract continues to rise. Many companies try to control sales costs by compensating sales representatives through commissions alone, thereby guaranteeing that salespeople are paid only if they generate sales. However, commission-only salespeople may become risk averse and only call on clients who have the highest potential return. These salespeople, then, may miss opportunities to develop a broad base of potential customers that could generate higher sales revenues in the long run.

Companies can also reduce sales costs by using complementary techniques, such as telemarketing, direct mail, toll-free numbers for interested customers, and online communication with qualified prospects. Telemarketing and online communication can further reduce costs by serving as an actual selling vehicle. Both technologies can deliver sales messages, respond to questions, take payment, and follow up.

A second disadvantage of personal selling is the problem of finding and retaining high-quality people. Experienced salespeople sometimes realize that the only way their income can outpace their cost-of-living increase is to change jobs. Also, because of the push for profitability, businesses try to hire experienced salespeople away from competitors rather than hiring college graduates, who take three to five years to reach the level of productivity of more experienced salespeople. These two staffing issues have caused high turnover in many sales forces.

Another weakness of personal selling is message inconsistency. Many salespeople view themselves as independent from the organization, so they design their own sales techniques, use their own message strategies, and engage in questionable ploys to generate sales. (You'll recall our discussion in the ethics module about the unique challenges that B2B salespeople face.) As a result, it can be difficult to find a unified company or product message within a sales force or between the sales force and the rest of the marketing mix.

A final disadvantage of personal selling is that sales-force members have different levels of motivation. Salespeople may vary in their willingness to make the desired number of sales calls each day; to make service calls that do not lead directly to sales; or to take full advantage of the technologies available to them.

How IMC Supports Personal Selling[4]

As with any other marketing communication method, personal selling must be evaluated on the basis of its contribution to the overall marketing mix. The costs of personal selling can be high and carry risks, but the returns may be just as high. In addition, when personal selling is supported by other elements of a well-conceived IMC strategy, it can be very effective indeed.

Consider the following example of Audi, which set out to build a customer-relationship program:

> Audi's goal was to not have the relationship with the customer end after the sale was made. Operating on the assumption that the company's best potential customers were also its existing customers, the company initiated an online program to maintain contact, while allowing its sales force to concentrate on selling. Based on its television campaign for the new A4 model, Audi offered a downloadable screensaver that frequently broadcasted updated news and information automatically to the consumers' computers. After displaying the screensaver option on its Web site, Audi sent an email to owners and prospects offering them the opportunity to download it. More than 10,000 people took advantage of the offer. Audi then began to maintain a continuous dialog with the adopters by sending them newsletters and updates. Click-through rates ranged from 25 to 35 percent on various parts of the site—well exceeding the standard rates—and car sales were 25 percent higher than they were the previous year, even in a down economy.[5]

As a result of several coordinated communication methods (TV advertising, email, downloadable screensaver, newsletters, and product information) and presumably a well-designed customer relationship management (CRM) system, Audi helped its sales force be more effective (by freeing it up to focus on sales and by connecting it with more prospective customers), which, turn, meant higher profits.

4. *How Companies Integrate Personal Selling into the IMC Program*. (2021, February 05). ZABANGA Marketing. http://www.zabanga.us/marketing-communications/how-companies-integrate-personal-selling-into-the-imc-program.html

5. *How Companies Integrate Personal Selling into the IMC Program*. (2021, February 05). ZABANGA Marketing. http://www.zabanga.us/marketing-communications/how-companies-integrate-personal-selling-into-the-imc-program.html

Direct Marketing: Going Straight to the Customer

Direct marketing activities bypass any intermediaries and communicate directly with the individual consumer. Direct mail is personalized to the individual consumer, based on whatever a company knows about that person's needs, interests, behaviors, and preferences. Traditional direct marketing activities include mail, catalogs, and telemarketing. The thousands of "junk mail" offers from credit card companies, bankers, and charitable organizations that flood mailboxes every year are artifacts of direct marketing. Telemarketing contacts prospective customers via the telephone to pitch offers and collect information. Today, direct marketing overlaps heavily with digital marketing, as marketers rely on email and, increasingly, mobile communications to reach and interact with consumers.

The Purpose and Uses of Direct Marketing

The purpose of direct marketing is to reach and appeal directly to individual consumers and to use information about them to offer products, services and offers that are most relevant to them and their needs. Direct marketing can be designed to support any stage of the AIDA model, from building awareness to generating interest, desire, and action. Direct marketing, particularly email, also plays a strong role in post-purchase interaction. Email is commonly used to confirm orders, send receipts or warrantees, solicit feedback through surveys, ask customers to post a social media recommendation, and propose new offers.

Direct marketing is an optimal method for marketing communication in the following situations:

- A company's primary distribution channel is to sell products or services directly to customers
- A company's primary distribution method is through the mail or other shipping services to send directly to the customer
- A company relies heavily on sales promotions or discounts, and it is important to spread the word about these offers to consumers
- An advertisement cannot sufficiently convey the many benefits of a company's product or service, and so a longer marketing piece is required to express the value proposition effectively
- A company finds that standard advertising is not reaching its target segments, and so better-targeted marketing communications are required to reach the right individuals; for example, using direct mail to reach wealthier people according to their affluent zip code
- A company sells expensive products that require more information and interaction to make the sale
- A company has a known "universe" of potential customers and access to contact information and other data about these customers
- A company is heavily dependent on customer retention, reorders and/or repurchasing, making it worthwhile to maintain "permissioned" marketing interaction with known customers

Data: The Key to Effective Direct Marketing

The effectiveness of direct marketing activity depends on marketers using databases to capture the information of target customers and the use of this information to extend ever-more-personalized offers and information to consumers. Databases record an individual's residence, geography, family status, and credit history. When a person moves or makes a significant purchase like a car or a home, these details become part of the criteria marketers use to identify who will be a good target for their products or services. With electronic media, the information flow about consumers opens the floodgates: marketing databases capture when a consumer opens an email message and clicks on a link. They track which links piqued consumers' interests, what they view and visit, so that the next email offer is informed by what a person found interesting the last time around. These databases also collect credit card information, so marketers can link a person's purchasing history to shopping patterns to further tailor communications and offers.

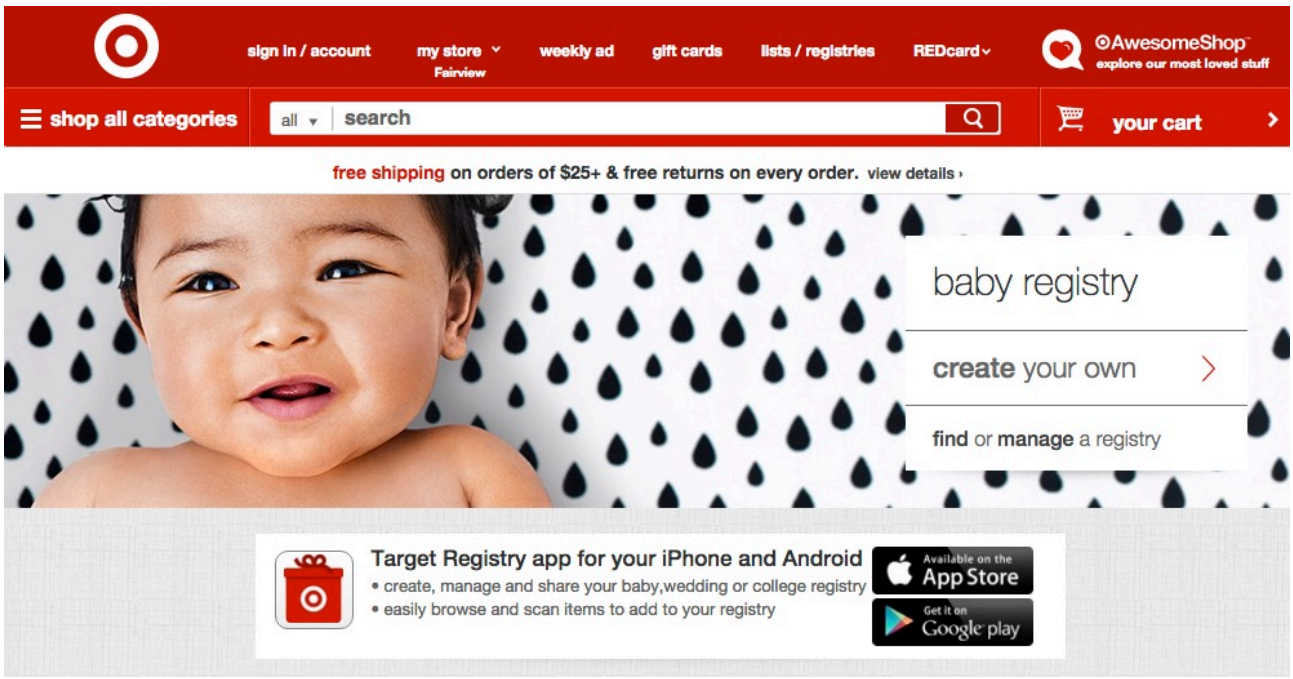
Mobile marketing adds another dimension of personalization in direct-to-consumer communications. It allows marketers to incorporate location-sensitive and even activity-specific information into marketing communications and offers. When marketers know you are playing a video game at a mall, thanks to your helpful smart phone, they can send you timing-, location- and activity-specific offers and messages.

Direct Marketing in Action

How does this work in practice? If you've ever paid off an auto loan, you may have noticed a torrent of mail offers from car dealerships right around the five-year mark. They know, from your credit history, that you're nearly done paying off your car and you've had the vehicle for several years, so you might be interested in trading up for a newer model. Based on your geography and any voter registration information, you may be targeted during election season to participate via telephone in political polls and to receive "robocalls" from candidates and parties stomping for your vote.

Moving into the digital world, virtually any time you share an email address with an organization, it becomes part of a database to be used for future marketing. Although most organizations that engage in email marketing give the option of opting out, once you become a customer, it is easy for companies to justify continuing to contact you via email or text as part of the customer relationship you've established. As you continue to engage with the company, your behavior and any other information you share becomes part of the database record the company uses to segment and target you with offers it thinks will interest you.

Similarly, marketers use SMS (text) for marketing purposes, and direct marketing activity takes place in mobile apps, games, and Web sites. All of these tools use the data-rich mobile environment to capture information about consumers and turn it into productive marketing opportunities. QR codes, another direct-to-consumer mobile marketing tool, enable consumers to scan an image with a mobile phone that takes them to a Web site where they receive special information or offers.



A great illustration of how companies use consumer information for direct marketing purposes comes from a *New York Times* article that interviewed Andrew Pole, who conducts marketing analytics for the retailer Target. The article discusses how Target uses behavioral data and purchasing history to anticipate customers' needs and make them offers based on this information:

> Target has a baby registry, and Pole started there, observing how shopping habits changed as a woman approached her due date, which women on the registry had willingly disclosed. He ran test after test, analyzing the data, and before long some useful patterns emerged. Lotions, for example. Lots of people buy lotion, but one of Pole's colleagues noticed that women on the baby registry were buying larger quantities of unscented lotion around the beginning of their second trimester. Another analyst noted that sometime in the first twenty weeks, pregnant women loaded up on supplements like calcium, magnesium, and zinc. Many shoppers purchase soap and cotton balls, but when someone suddenly starts buying lots of scent-free soap and extra-big bags of cotton balls, in addition to hand sanitizers and washcloths, it signals they could be getting close to their delivery date.
>
> As Pole's computers crawled through the data, he was able to identify about twenty-five products that, when analyzed together, allowed him to assign each shopper a "pregnancy prediction" score. More important, he could also estimate her due date to within a small window, so Target could send coupons timed to very specific stages of her pregnancy.
>
> One Target employee I spoke to provided a hypothetical example. Take a fictional Target shopper named Jenny Ward, who is twenty-three, lives in Atlanta, and in March bought cocoa-butter lotion, a purse large enough to double as a diaper bag, zinc and magnesium supplements, and a bright blue rug. There's, say, an 87 percent chance that she's pregnant and that her delivery date is sometime in late August. What's more, because of the data attached to her Guest ID number, Target knows how to trigger Jenny's habits. They know that if she receives a coupon via e-mail, it will most likely cue her to buy

> online. They know that if she receives an ad in the mail on Friday, she frequently uses it on a weekend trip to the store.[1]

The article goes on to tell the well-documented story of an outraged father who went into his local Target to complain about the mailer his teenage daughter received from Target featuring coupons for infant clothing and baby furniture. He accused Target of encouraging is daughter to get pregnant. The customer-service employee he spoke with was apologetic but knew nothing about the mailer. When this employee phoned the father a few days later to apologize again, it emerged that the girl was, in fact, pregnant, and Target's marketing analytics had figured it out before her father did.

Advantages and Disadvantages of Direct Marketing

All this data-driven direct marketing might seem a little creepy or even nefarious, and certainly it can be when marketers are insensitive or unethical in their use of consumer data. However, direct marketing also offers significant value to consumers by tailoring their experience in the market to things that most align with their needs and interests. If you're going to have a baby (and you don't mind people knowing about it), wouldn't you rather have Target send you special offers on baby products than on men's shoes or home improvement goods?

As suggested in the *New York Times* excerpt, above, direct marketing can be a powerful tool for anticipating and predicting customer needs and behaviors. Over time, as companies use consumer data to understand their target audiences and market dynamics, they can develop more effective campaigns and offers. Organizations can create offers that are more personalized to consumer needs and preferences, and they can reach these consumers more efficiently through direct contact. Because it is so data-intensive, it is relatively easy to measure the effectiveness of direct marketing by linking it to outcomes: did a customer request additional information or use the coupons sent? Did he open the email message containing the discount offer? How many items were purchased and when? And so forth. Although the cost of database and information infrastructure is not insignificant, mobile and email marketing tend to be inexpensive to produce once the underlying infrastructure is in place. As a rule, direct marketing tactics can be designed to fit marketing budgets.

Among the leading disadvantages of direct marketing are, not surprisingly, concerns about privacy and information security. Target's massive data breach in 2013 took a hefty toll on customer confidence, company revenue, and profitability at the time. Direct marketing also takes place in a crowded, saturated market in which people are only too willing to toss junk mail and unsolicited email into trash bins without a second glance. Electronic spam filters screen out many email messages, so people may never even see email messages from many of the organizations that send them. Heavy reliance on data also leads to the challenge of keeping databases and contact information up to date and complete, a perennial problem for many organizations. Finally, direct marketing implies a direct-to-customer business model that inevitably requires companies to provide an acceptable level of customer service and interaction to win new customers and retain their business.

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1. Duhigg, C. (2012, February 16). How companies learn your secrets. The New York Times Magazine. http://www.nytimes.com/2012/02/19/magazine/shopping-habits.html

Direct Marketing in the IMC Process

Direct marketing, and email marketing in particular, plays a critical role in many IMC campaigns because it is a primary means of communicating with any named-and-known target audiences. It is a common vehicle for spreading the word about sales promotions and public relations activities. Direct marketing pieces can reuse and reinforce messages and images developed for advertisements, offering another touchpoint for reaching target segments. QR codes and other mobile marketing tactics may be used at the point of sale to engage customers and persuade them to purchase. Email marketing messages commonly include links to social media, inviting consumers to share experiences, opinions, marketing messages, and offers with their social networks.

Direct marketing can also be a useful tool in personal selling, as it helps marketers and sales representatives efficiently maintain ongoing relationships with customers and prospects as they are nurtured through the sales process. The rich data behind direct marketing also provides insight for sales representatives to help them segment prospective customers and develop offers and sales approaches personalized to their needs and interests.

Digital Marketing: Inform, Entice, Engage

Digital marketing is an umbrella term for using digital tools to promote and market products, services, organisations and brands. As consumers and businesses become more reliant on digital communications, the power and importance of digital marketing have increased. The direct marketing section of this module has already discussed two digital tools: email and mobile marketing, which fit into both categories. This section will discuss other essential tools in the digital marketing toolkit: websites, content marketing *search engine optimisation* (SEO), and social media marketing.

What Makes Digital Marketing Tools Unique

In part, digital marketing is critically important because people frequently use digital technologies, and marketing needs to occur where they are. However, digital marketing tools also possess other unique capabilities that distinguish them from traditional (predigital) marketing communication tools. These capabilities make them uniquely suited to the goals of marketing. Digital marketing tools are:

- **Interactive:** A primary focus of many digital marketing tools and efforts is to interact with target audiences, so they become actively engaged in the process, ideally at multiple points along the way. This may happen by navigating a website, playing a game, responding to a survey, sharing a link, submitting an email address, publishing a review, or even "liking" a post. Asking consumers to passively view an advertisement is no longer enough: now marketers look for ways to interact.
- **Mobile and portable:** Today's digital technologies are more mobile and portable than ever before. This means digital marketing tools are also mobile and portable: consumers can access them–and they can access consumers–virtually anytime and anywhere through digital devices. Digital marketing can reach people in places and ways that simply were not possible in the past. A tired mother stuck in traffic might encourage her child to play a game on her smartphone, exposing both child and mother to marketing messages in the process. A text message sent to a remote location can remind an adventurer to renew a subscription or confirm an order. Many physical limitations fall away in the digital world.
- **Highly measurable and data-driven.** Digital technologies produce mountains of data about who is doing what, when, how, and with whom. Likewise, digital marketing tools enable marketers to determine precisely whom they want to reach, how to reach them, and what happens when people begin the process of becoming customers. By tracking and analysing these data, marketers can also identify which channels are most productive for bringing people into the site and what types of interactions are most efficient at turning them into customers.
- **Shareable:** Because digital marketing tools are digital, it is easy to share them at low or no cost–a benefit for marketers and for consumers who find content they want to share virally. People routinely share videos, games, websites, articles, images, and brands—any number of overt or covert marketing artefacts. In fact, the degree to which something is shared has become a key metric for confirming its success as a marketing vehicle. Sharing has always been a primary means of spreading ideas. Digital marketing tools now facilitate extremely rapid, efficient, global sharing.

- **Synergistic with other marketing activities:** Digital marketing tools offer quick, easy, and inexpensive ways to repurpose marketing messages and content from other marketing communication methods. They help amplify and reinforce the messages targeting consumers through other media. For example, uploading a TV ad to YouTube creates a piece of digital marketing content that can be posted to Facebook, tweeted on Twitter, embedded in a website page, and shared via an email from a sales representative engaged in personal selling to a target customer.

Dove #ShowUs

Let's take a look at this commercial from Dove. What did they do to take advantage of digital marketing tools?

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=620#oembed-3

Not only did Dove produce a video on a relevant topic, but they also invited people to join the conversation. At the end of the commercial, they invited viewers to share the message by using the hashtag #ShowUs.

The Imperative to Use Digital Marketing

For virtually every organisation that wants to do business in the world today, having some level of digital marketing presence is a requirement. A website is quite literally an organisation's digital address and calling card. People of all ages routinely use Web searches for information that shapes their purchasing decisions; using the Web helps them decide where to look, what to buy, where to find it, and how much to pay. Marketers must develop useful Web content and engage in **Search Engine Optimisation** (SEO) strategies to ensure their websites are found when people search for them.

Social media marketing helps organisations tap into the power of word-of-mouth sharing, enabling people to hear about a company, product, or brand from trusted sources. Social media enables marketers to cultivate communities and engage in timely conversations about their brands and products, providing valuable insights into what works and what doesn't with their marketing efforts or the customer experiences they offer. Email and mobile marketing reflect the dominant communication patterns in the developed world as well as in many developing countries. Communicating effectively with prospects and customers requires marketers to utilise common, everyday tools.

Digital marketing tools are an integral part of most IMC campaigns, as they provide digital communication support to target and reinforce campaign messages and activities in other media. Examples of digital marketing tools supporting broader IMC activity include the following:

- Media companies host and monitor forums for fans to live-tweet during broadcast and cable TV programs, such as *The Walking Dead* and *Empire*, including commentary on the programming, advertising, the enter-

tainment "brand," and nature of the fan community.
- Companies routinely upload television ads to YouTube and then work to create "buzz" by promoting this content through their websites, blogs, Facebook, Twitter, and other social media platforms.
- Well-designed Web content, such as research reports, articles, and e-books, is used as informational giveaways to generate interest and cultivate leads during trade shows, conferences, and personal selling activities.

Website Marketing

Websites represent an all-in-one storefront, a display counter, and a megaphone for organisations to communicate in the digital world. For both digital and brick-and-mortar businesses, websites serve as a primary channel for communicating with current and prospective customers, as well as other audiences. A good website provides evidence that an organisation is real, credible, and legitimate.

The variety of online website-building services now available makes setting up a basic website relatively simple and inexpensive. Once the website is established, it can continue to be fairly easy and inexpensive to maintain if the organisation uses cost-effective and user-friendly tools. On the other hand, sophisticated websites can be massively expensive to build and maintain, and populating them with fresh, compelling content can devour time and money. But organisations can adjust the scope, scale, and resources required for their websites in proportion to their business objectives and the value they want their websites to deliver.

Websites As Marketing Tools

Websites are flexible, allowing organisations to build the features and capabilities they need to conduct business effectively. Common marketing objectives and website functions include the following:

- **Providing general information** about an organisation, such as the value proposition, products and services, and contact information
- **Expressing the brand** of an organisation through design, look and feel, personality, and voice
- **Demonstrating products, services, and expertise**, including the customer experience, features, benefits, and value they provide
- **Proof points** about the value a company offers, using evidence in the form of case studies, product reviews, testimonials, return on investment data, etc.
- **Lead generation,** capturing information about website visitors to use in ongoing sales and marketing activity
- **Communities and forums** for target audiences to share information and ask/answer questions
- **Publishing value-adding content** and tools for informational or entertainment purposes to bring people in and draw them back to the website
- **Communication** about company news, views, culture, developments, and vision through an electronic newsroom or a company blog, for example
- **Shopping,** providing tools for customers to research, find, and select products or services in the digital environment
- **Recommendations** that direct customers to information, products, services, and companies that meet their interests and needs
- **Sales**, the ability to conduct sales and transact business online
- **Capturing customer feedback** about the organisation, its products, services, content, and the website expe-

rience itself

Before starting to build a website, the marketing manager should meet with other company leaders to lay out a common vision for what the Website should accomplish and the business functions it should provide. For example, if a business does not plan to handle sales online, there is no need to build a shopping cart function or an e-commerce engine. If cultivating lively dialogue with an active customer community is a key business objective, this capability should be incorporated into the website's strategy and design decisions from the outset. The website strategy must be effective at achieving the organisation's goals to inform, engage, entertain, explore, support, etc..

Top Tips for Effective Websites

Many factors go into building an effective website. The following table serves as a checklist for key considerations.

Website Elements Tips and Recommendations

Website Element	Tips and Recommendations
Domain name	The domain name is your digital address. Secure a name that is memorable and functional for your business.
Look and feel	A site's look and feel conveys a lot about a company. Ensure your site makes a positive impression regarding credibility, product quality, customer experience, and other key aspects.
Messaging	Messaging and its presentation can draw people in or turn them off immediately. Find concise, compelling ways to tell your story.
Design	Website design is about both usability and aesthetics. Make conscious choices about how design expresses your brand personality as well as its role in making the user experience intuitive and effective.
Structure	Structure the website and organise information so that it is easy for visitors to navigate the site and find what they want.
Content quality	To a large degree, the quality of content is what brings traffic to a website (more on this soon). Produce content and organise it so it can drive traffic, move customers through the sales cycle, and generate business.
Content variety	Use a mix of professional-quality text, images, video, and other visual content to make your website interesting and readable.
Language	Typos and grammatical errors are a significant turnoff on a website. Proofread everything with fresh eyes before you publish.
Accessibility	Follow basic principles of website accessibility to ensure that people can use your site effectively regardless of device or disability.
Call to action	Provide cues for your website visitors about what to do next. Give each page a clear call to action and a path that invites people to keep exploring and moving closer to a purchasing decision.
Analytics	Track website traffic and usage patterns using a tool like Google Analytics. Monitor which website pages get attention and which ones flop. Use what you learn to improve how well your website meets your objectives.

Advantages and Disadvantages of Website Marketing

Websites have so many advantages that there is almost no excuse for a business not to have one. Effective website marketing declares to the world that an organisation exists, what value it offers, and how to do business. Websites can be an engine for generating customer data and new business leads. An electronic storefront is often dramatically less expensive than a physical storefront, and it can serve customers virtually anywhere in the world with internet access.

Websites are very flexible and easy to alter. Organisations can try out new strategies, content and tactics at relatively low cost to see what works and where the changes pay off.

At the same time, websites carry costs and risks. They do require some investment of time and money to set up and maintain. For many organisations, especially small organisations without a dedicated website team, keeping website content fresh and up-to-date is a continual challenge. Organisations should make wise, well-researched decisions about information infrastructure and website hosting to ensure their sites remain operational with good performance and uptime. Companies that capture and maintain customer data through their websites must be vigilant about information security to prevent hackers from stealing sensitive customer data. Some company websites face additional information security challenges, including electronic vandalism, trolling (offensive or provocative online posts), and denial-of-service attacks launched by hackers to disrupt websites.

Search Engine Optimisation and Content Marketing

Search engine optimisation (SEO) is the process of using Internet search engines, such as Google, Bing, and Yahoo, to gain notice, visibility, and traffic from people conducting searches using these tools. SEO works in lockstep with content marketing, which takes a strategic approach to developing and distributing valuable content targeted to the interests of a defined audience, with the goal of driving sales or another profitable customer action. In other words, content marketers create worthwhile Internet content aimed at their target audiences. Then organisations use SEO tactics to get this content noticed and to generate new traffic and sales leads.

Together, SEO and content marketing can help boost awareness and brand perceptions about the value a company provides. Content marketing can help an organisation gain visibility as an expert or leader in its competitive set. Together, these marketing communications tools help organisations get noticed and stay top of mind among individuals seeking the types of products or services they offer.

How SEO Works

The basic premise behind search-engine optimisation is this: People conduct Internet searches. The search terms they use bring up a given set of results. When someone is searching for the types of things your organisation offers, as a marketer, you want your results to be at the top. You can boost your search rankings by identifying and applying SEO and content marketing strategies to the search terms people use when they are looking for products or services like yours. It may even be worth paying to get their attention, because people searching for the things you offer are likely to be better-qualified prospective customers.

Because the supply of Internet content on any given topic is continually expanding, and because search-engine companies regularly fine-tune their search algorithms to deliver ever more helpful results, SEO is not a one-time task. It's an ongoing process that companies should integrate into their entire digital marketing approach.

In the world of SEO, there are two types of search results: 1) organic (or unpaid) search results, and 2) inorganic (or paid) search results.

Organic search results are the unpaid listings that appear solely because of their relevance to the search terms entered when you conduct an Internet search. These are unpaid listings, and they earn their place because the search engine determines they are most relevant and valuable based on a variety of factors, including the content itself and its popularity with other Internet users.

Inorganic, or paid search results, appear because companies have paid the search engine for a high-ranking placement based on the search terms used. Organisations bid for this placement and typically pay per click when

someone clicks through to a website. Most search engines mark the paid results as ads, so that Internet users can distinguish between organic and paid search results. In Figure 1, below, the results preceded by the word *Ad* in yellow indicate paid search results from a Google search of "cats for sale."

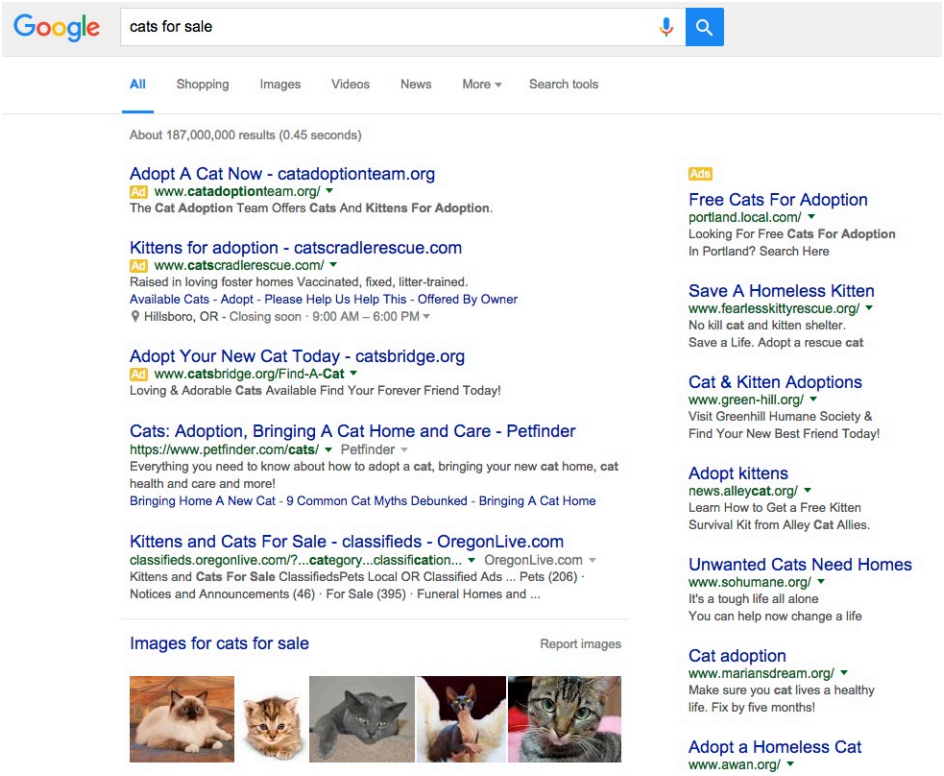


Figure 1. Google Search results for the search "cats for sale". Screenshot Cats for Sale Search. Provided by: Google. Located at: https://www.google.com/. License: All Rights Reserved. License Terms: Fair Use

The following short video explains what makes Google AdWords so powerful.

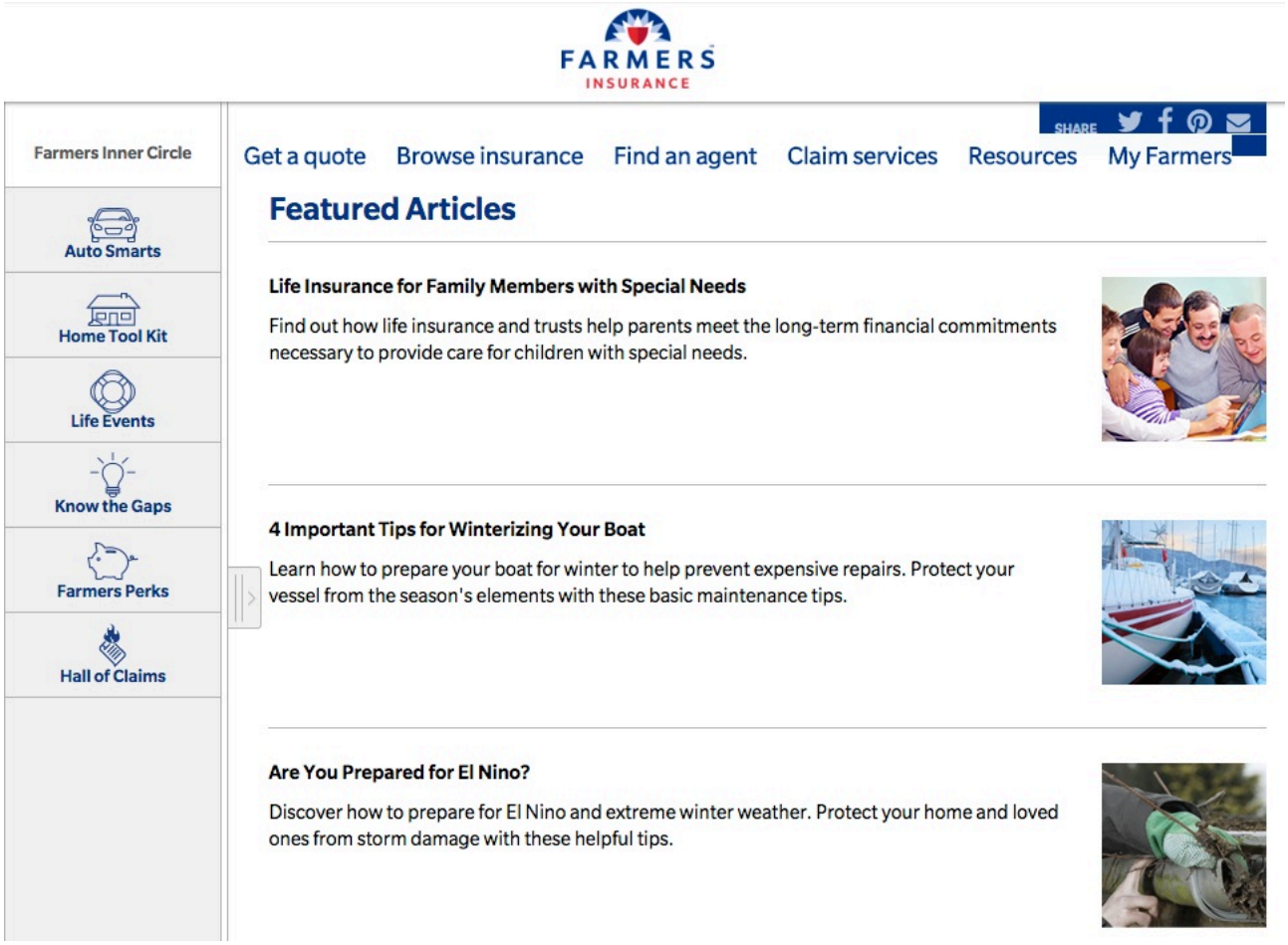
One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=620#oembed-1

You can view the transcript for "Google AdWords" here (opens in new window).

Marketers use keyword research to guide their efforts to improve their rankings for both organic and inorganic searches. Keyword research helps marketers identify the search terms people are most likely to use when looking for the types of products, services, or information their website offers. Tools such as freely available Google AdWords Keyword Planner and Google Trends help marketers identify and compare popular search terms. Armed with optimal search keywords, they can buy high-ranking placement in inorganic, paid search results for their search terms of choice. They can improve their organic (unpaid) search rankings by applying content marketing strategies.

How Content Marketing Works

There is a popular saying among digital marketers: "Content is king." Good content attracts eyeballs, while poor content does not. Content marketing is based on the premise that marketers can use web content as a strategic asset to attract attention and drive traffic to target audiences. As a marketer, part of your job is to help the organisation publish substantive web content–articles, videos, e-books, podcasts, images, infographics, case studies, games, calculators, etc.–that will be interesting for your target segments. When you do this, you should incorporate your optimal search terms into the content, so that it's more likely to show up in organic search results. You should also look for ways to link to that content from other web pages, so that search engine "bots" (or computer programs) responsible for cataloguing websites will think your content is popular and well regarded by the Internet-user community. As your content appears in search results, it will rank higher as more and more people click through to your content and link to it from other locations on the Internet.



Articles and tips on Farmers Insurance website. Farmer's Insurance Website. Provided by: Farmer's Insurance. Located at: https://www.farmers.com/. License: All Rights Reserved. License Terms: Fair Use

Top Tips for SEO and Content Marketing

You can use the following simple recommendations to realise the benefits of SEO and content marketing. When the two work together, they can support your organisation's success, raising its profile, improving search rankings, and generating traffic and new business.

SEO/Content Element Tips and Recommendations (Source: https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-digital-marketing/)

SEO/Content Element	Tips and Recommendations
Content quality	Create website content that is substantive and showcases your expertise. Create material that makes people want to stay on your site to keep reading, interacting, and exploring.
Key-word research	Conduct keyword research to learn what actual search terms people are using that relate to your goods, products, services, and brand.
Incorporate keywords	Make sure your content matches the search terms you want to be associated with. Be sure to use actual, real-world search terms in order to get the bump to higher rankings.
Content freshness	Search-engine algorithms like new content, as well as content where there is a flurry of activity. Create and promote fresh new content regularly to get the "freshness boost" in search results.
Evergreen content	Be sure to develop some Web content that won't age and become outdated quickly, such as news releases. Persistently useful, interesting content generates more visits, more external links from other sites, and higher search rankings.
Internal links	Create internal links between content pages on your website. This points users to additional material that may interest them. It also helps search engines crawl through your site to reach and discover all of your content. And more sites that link to a page help boost that page's search rankings.
Headlines	Create great headlines for your Web content that grab attention while also helpfully indicating what the content will provide. Also, make sure your content delivers on the headline.
Call to action	Include a clear call to action on each Web page or content element, whether that involves sharing information, registering for a webinar, downloading an e-book, or linking to another Web page. Utilise content and calls to action to guide individuals through the AIDA model, ultimately leading them toward purchasing decisions.
Promoting content	Once content is published, use other marketing communication tools to promote it. Write posts about it on Twitter, Facebook, LinkedIn, Google+, or other social networks of choice. Send email messages to active sales opportunities. Link to it from the Website home page. Create a flurry to help give it an SEO boost.

Advantages and Disadvantages of SEO and Content Marketing

Internet search is a fact of life in the modern world. It is a critical tool for customer decision-making in B2B and B2C markets. Practising the basic tenets of SEO helps an organisation get into the search engine fray. When marketers do it skillfully, they can easily track the results, see what works, and adjust course to improve outcomes. When organisations generate high-quality content, it can be relatively inexpensive to achieve great SEO results, particularly as search engines themselves increasingly reward the "real deal": good information and true substance targeted to a specific audience.

While SEO and content marketing are powerful tools, they are also like puppies that require ongoing care and attention. Both require regular monitoring to check whether they are effective and need refreshing. The Internet is a crowded and competitive place where organisations from around the globe can compete with one another for attention and customer loyalty. It takes persistence and hard work to establish a presence in the world of Internet content and maintain it.

Social Media Marketing

Social media marketing is the use of online applications, networks, blogs, wikis, and other collaborative media to communicate brand messaging, conduct marketing, public relations, and lead generation. Social media are distinc-

tive for their networking capabilities: they allow people to reach and interact with one another through interconnected networks. This "social" phenomenon changes the power dynamic in marketing: no longer is the marketer the central gatekeeper for all communication about a product, service, brand, or organisation. Social media enables direct, unmediated dialogue and activity between individuals, bypassing the involvement of a company. Companies can (and should) listen, learn, and find ways to participate authentically.

Social media marketing focuses on three primary objectives:

1. **Creating buzz:** Developing and publishing messages (in a variety of formats–e.g., text, video, and images) that is disseminated via user-to-user contact
2. **Fostering community:** Building ways for fans to engage with one another about a shared interest in a brand, product, or service
3. **Facilitating two-way communication:** Online conversations are not controlled by the organisations. Instead, social media promotes and encourages user participation, feedback, and dialogue.

How Social Media Marketing Works

Organisations have opportunities to engage in social media for marketing purposes in several ways: paid, earned, and owned social media activity.

- **Paid:** Paid social media activity includes advertisements on social media (placed in various locations), sponsored posts or content, and retargeting advertisements that target ads based on a consumer's previous actions. This type of social media activity is best suited for sales, lead generation, event participation, and integration into integrated marketing communications (IMC) campaigns.
- **Earned:** Earned social media activity involves news organisations, thought leaders, or other individuals who create content about an organisation. It is particularly suited to supporting public relations efforts.
- **Owned:** Owned social media activity happens through social media accounts that an organisation owns (e.g., Facebook page, Twitter handle, Instagram name, etc.). This activity is ideal for enhancing brand awareness, generating leads, and achieving goals related to engaging target audiences.

Effective use of social media to reach your target audience requires more effort by an organisation than traditional marketing methods. Not only must an organisation create unique content and messaging, but it must be prepared to engage in two-way communication regarding the content that it produces and shares on social media. To be effective at using social media to reach target audiences, an organisation must:

- **Create unique content, often.** Social media, unlike traditional methods, cannot rely on static content. An organisation must regularly publish new, unique content to stay relevant on any social media platform.
- **Ask questions.** To foster engagement, an organisation must solicit feedback from users, customers, and prospects. This is crucial for fostering conversation, insight, and discussion on social media platforms.
- **Create short-form media.** Most social media platforms have character limits per post. Users on social media expect to be able to scan their feed. Long posts (even within character limits) tend to underperform. The more succinct an organisation can be, the better.
- **Try different formats.** Most social media platforms provide users with the option to add images and videos to text. Social media is becoming an increasingly visual medium, where content that performs the best usually includes an image or video. Try to convert messages into images and video when possible for maximum reach.

- **Use a clear, immediate call to action.** Social media is most effective for achieving marketing goals when accompanied by a clear call to action that users can take immediately from their computer or mobile device. Examples include 1) Web traffic (click-through), 2) downloads of content (e.g., white papers, articles, etc.), 3) online purchases, and 4) engagement (comment, like, share, view, read).

Common Social Media Marketing Tools

What's hot in social media is a moving target, but the following table provides a listing and description of primary social media platforms.

Social Media Marketing Tools (Source: Social Media Marketing. Authored by: Melissa Barker. Provided by: Spokane Falls Community College. License: CC BY: Attribution)

Tool	Description
Blogs	Long- or short-form medium for communicating with audiences
YouTube	Video-hosting social media site
X	Short-form (280-character) "microblogging" medium that is intended for text and image sharing
Facebook	Long-form (up to 2,000 characters per post) medium for sharing text, images, videos, and other multimedia content
Instagram	Image-based social network that is intended as a visual medium. Does not have the capabilities to drive click-through rate (CTR) because posts offer no link option
Tiktok	Short-form video
Pinterest	Medium for sharing photos and visual content categorised by theme
LinkedIn	Long- or short-form medium for sharing text, images, videos, and other multimedia content targeted to the business community

Top Tips for Social Media Marketing

The following tips help break down the process of mounting a successful social media marketing strategy.

Top Tips for Social Media Marketing (Source: Digital Marketing. Authored by: Lumen Learning. License: CC

Activity	Tips and Recommendations
Start with SWOT	Start by conducting a SWOT analysis of your social media activity. Evaluate how your organisation is currently using so (platforms, messaging, tactics, and campaigns).
Establish a baseline	Establish a baseline. Take measurements for current reach and engagement before starting to use social media for marke impact and refine your approach as you pursue a social media strategy.
Set goals	Set specific goals for your social media campaign. Make them S.M.A.R.T. goals that align with your broader marketing
Target audience	Understand how your target audience is using social media (and what platforms).
Platforms	Identify which social media platforms you will use and what you want to accomplish in each.
Ownership	Identify who within the organisation will "own" and share responsibility for social media participation. Develop plans messaging if there are multiple owners.
Testing	A/B test your content using the targeting features of the social media platform. Figure out which types of posts, messag responses.
Measurement	Regularly take measurements of how much engagement your efforts are producing. Compare them to the benchmark
Monitor	Monitor social media activity regularly and ensure a prompt response to customers, prospects, and other users.

Advantages and Disadvantages of Social Media Marketing

The advantages and benefits of social media marketing focus heavily on the two-way and even multidirectional communication between customers, prospects, and advocates for your company or brand. By listening and engaging in social media, organisations are better equipped to understand and respond to market sentiment. Social media helps organisations identify and cultivate advocates for their products, services, and brand, including the emergence of customers who can become highly credible, trusted voices to help you sell. Unlike many other forms of marketing, social media is very measurable, allowing marketers to track online customer behaviour and how target audiences respond to content created by the organisation. Social media provides a virtually unlimited audience for communicating and sharing key market messages. It also offers marketers the ability to relatively easily target and test the effectiveness of content using the various targeting capabilities of social media for location, interests, income, title, industry, and other sociographic differentiators.

Social media also presents several inherent challenges. Social media are dynamic environments that require significant effort to monitor and stay current on. It is also difficult to continually create "share-worthy" content. The variety of social media tools presents a challenge in determining which platforms to use for specific target audiences and calls to action. Crisis communications can be challenging, too, particularly in the public sphere of social media, where it is difficult to contain or control communication. This means it can be difficult to mitigate the impact of a crisis on the brand.

One of the biggest challenges facing organisations is determining who in the organisation should "own" the social media platforms for the organisation. Having too few hands to help means the burden of content creation is disproportionately high for a single individual. However, too many people often result in duplication of efforts or conflicting content.

Expert Insight on Using Social Media: JetBlue

Airline carrier JetBlue has received attention and accolades for its effective use of social media to foster two-way com-

munication with customers. In this video, JetBlue's head of social media strategy, Morgan Johnston, explains the company's approach to social media and how it complements other corporate and marketing communication activities. He also shares insights about how the company utilised social media to manage crisis communications and respond to customers during Hurricane Sandy, when extreme weather conditions significantly impacted the company's northeastern U.S. travel routes.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=620#oembed-2

You can view the transcript for "Social Fresh interview with Morgan Johnston of jetBlue" here (opens in new window).

Guerrilla Marketing: Thinking Outside the Box

Guerrilla marketing is a relatively new marketing strategy that relies on unconventional, often low-cost tactics to create awareness of and goodwill toward a brand, product, service, or even a company. The term "guerrilla marketing" itself comes from Jay Conrad Levinson, who coined the term in his 1984 book *Guerrilla Advertising*. Though "guerrilla" has military connotations (the word means "little war), guerrilla promotion strategies often combine elements of wit, humor, and spectacle to capture people's attention and engage them in the marketing act. Guerrilla marketing is memorable. And, like the renegade militias it was presumably named for, unexpected.

Practitioners of guerrilla marketing today have used other words to describe it: *disruptive, anti-establishment, newsworthy*, and *a state of mind.* By its nature, guerrilla marketing defies precise description, so it may be worthwhile to view an example before going further.

Classic Guerrilla: Nike Livestrong at the Tour de France

Although this campaign was a full-blown IMC effort, at its core it was really a memorable guerrilla marketing stunt: the spectacle of painting the streets of France during the world-famous Tour de France bicycle race. It ran in 2008 when Lance Armstrong was still one of the most revered athletes of his generation. Designed to generate awareness for Nike, the nonprofit Livestrong Foundation, and the cause of fighting cancer, marketers succeeded in sharing inspiring messages of hope with their target audiences: athletes, sports enthusiasts and people affected by cancer, particularly young people.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=622#oembed-1

You can view the transcript for "Nike Livestrong Chalkbot Web Film" (opens in new window).

Telltale Signs of Guerrilla Marketing

Guerrilla marketing campaigns can be very diverse in their approach and tactics. So what do they have in common? Guerrilla marketing often has the following characteristics:

- It's imaginative and surprising, but in a very hip or antiestablishment way
- Doesn't resemble a traditional marketing initiative, such as a straightforward print or TV advertising campaign
- Uses combinations of different marketing communications tactics, in creative ways
- Is experiential, drawing in the target audience to participate

- Takes risks in what it aspires to accomplish, even if it might ruffle some feathers
- Is not 100 percent approved by the establishment (i.e. the city, the event planners, the powers that be)

When to Use Guerrilla Marketing

This edgy marketing approach focuses on two goals: 1) get media attention, and 2) make a positive and memorable connection with your target audience. Many noteworthy guerrilla campaigns, like Nike Livestrong, focus on creating an experience that embodies the spirit of the brand. Often these projects invite people who encounter the campaign to become co-conspirators in achieving the campaign's vision and reach.

Guerrilla marketing experts assert that this technique can work for virtually any brand or organization, so long as the organization doesn't mind taking some risks, and so long as the project is true to who you are and what you represent. The right concept for the guerrilla marketing effort should capture your organization's authentic voice and express what is unique about your brand identity. At some point you may be asked to stand up for your actions if you're called onto the carpet, so you need to believe in what you are doing. Guerrilla marketing is particularly suited to small, imaginative organizations that may not have much money but have a burning desire to do something memorable—to make an entrance or a splash. Severe budget constraints can encourage creative teams to be very inventive and original.[1]

Because it is inherently *spectacle*, guerrilla marketing tactics work very well for building brands and generating awareness and interest in an organization, product, service, or idea. They aim to put a company on the map–the mind-share map. It's interesting that guerrilla marketing often calls on the audience to engage or take action, but turning participants into a paying customers may not be the goal. However, successful guerrilla marketing can make audiences undergo a kind of "conversion" experience: if the impact is powerful enough, it can move consumers further along the path towards brand loyalty.

Volkswagen: Take the Slide!

Take a look at the following guerrilla marketing spectacle organized by Volkswagen. Notice how the event capitalizes on a unique combination of emotional appeal and surprise. (Note: there is no narration to the video; just background music.)

https://youtube.com/watch?v=W4o0ZVeixYU

You can access the text alternative for Speed Up Your Life, Take the Slide (opens in new window).

Guerrilla Marketing Tactics: The Usual Suspects

As you saw in the example of the lamppost transformed into a McDonald's coffeepot, all kinds of spaces and urban environments present opportunities for the guerrilla marketer. In fact, guerrilla marketing initiatives can be executed

1. Business Insider. (2010, April 19). *How to Pull Off a Guerilla Marketing Campaign*. Entrepreneur. http://www.entrepreneur.com/article/206202

offline or online. Some companies feel that an edgy, unexpected online campaign with creative guerrilla elements is a little safer than executing a project in the bricks-and-mortar world.

It goes against the very notion of guerrilla marketing to establish a set of tactics or practices that are "conventional" or "typical." However, the following list describes some examples of guerrilla marketing tactics from noteworthy campaigns, which will give you an idea of what's been used in the past.[2]

Guerrilla Tactics (Guerrilla Marketing. Provided by: Lumen Learning License: CC BY Attribution")

Guerrilla Tactic	Description
Graffiti	Graffiti marketing, a subset of guerrilla marketing, turns walls, alleys, and streets into larger-than-life canvases for marketing activity.
Stencil graffiti	Use of stencils to create repeated works of graffiti, with the stencils enabling the project team to rapidly recreate the same work in multiple locations. Stencils tend to be smaller-scale and simpler than classic graffiti art.
Undercover, or stealth marketing	Use of marketers or paid actors to go "undercover" among peers to engage unsuspecting people in a marketing activity of some sort. For example, attractive actors are paid to strike up conversations, rave about a new mobile device, and then ask people to take a photo using the device, so that they get hands-on experience with the product in question.
Stickers	Inventive use of stickers as a temporary medium for creating an image, posing an illusion, or conveying a message
Flash mobs	A group of people organized to perform an action at a predetermined place and time; usually they blend in with bystanders initially and then join the "mob" activity at the designated moment, as in the Do Re Mi video, above.
Publicity stunts	Extraordinary feats to attract the attention of the general public, as well as media
Treasure hunts	Placing a series of online and offline "treasure hunt" clues in an urban environment and inviting target audiences to participate in the hunt to win prizes and glory
Sham events	Staging an activity or event that appears real, but in fact is a fake, for the purposes of drawing attention and making a statement

Despite the irreverent, antiestablishment spirit of guerrilla marketing, marketers should use good judgment about seeking permission from building owners, city managers, event planners, or others in a position of authority, to avoid unpleasant or unnecessary complications. Some coordination, or even a heads-up that something is happening, can go far toward earning goodwill and a cooperative spirit in the face of an unexpected spectacle.

How NOT to Guerrilla Market

When three guerrilla marketing veterans spoke with *Entrepreneur* about their work, they gave their top advice about what NOT to do with these projects:[3]

- Adam Salacuse of ALT TERRAIN: "Never aim to upset, scare, or provoke people in a negative way. The goal

2. Marrs, M. (2020, July 21). *20+ Jaw-Dropping Guerrilla Marketing Examples*. WordStream.http://www.wordstream.com/blog/ws/2014/09/22/guerrilla-marketing-examples

3. Business Insider. (2010, April 19). *How to Pull Off a Guerilla Marketing Campaign*. Entrepreneur. http://www.entrepreneur.com/article/206202

should be to implement something that people will embrace, enjoy, and share with friends."

- Brett Zaccardi of Street Attack: "Don't be contrived or too bland. Don't try to be something you're not."
- Drew Neisser of Renegade Marketing: "Try not to annoy your target. [It] is generally not a good idea to do something that will cause someone on the team to go to jail."

Advantages and Disadvantages of Guerrilla Marketing

Guerrilla marketing has several notable advantages. It can be inexpensive to execute—it's often much cheaper than traditional advertising when you consider the number of impressions and amount of attention generated. It encourages creativity and inventiveness, since the goal is to create something novel and original. Guerrilla marketing is about buzz: it is designed for viral sharing, and it taps into powerful word-of-mouth marketing as people share their memorable guerrilla-inspired impressions and experiences with friends and acquaintances. A guerrilla marketing phenomenon can take on a life of its own and live in the memories of the people it affected long after the actual event is over. Finally, when executed effectively, guerrilla tactics are designed with media and publicity in mind. Media attention can snowball and generate a larger-than-expected "bounce" as local or even national outlets choose to cover these events.

As suggested above, guerrilla marketing also carries some disadvantages and risks. When an (apparently) spontaneous activity springs up in a public space, property owners, the police, and other authorities may object and try to interfere or stop the event. Unexpected obstacles can arise, which even the best-laid plans may have missed: weather, traffic, current events, timing, etc. Some audiences or bystanders may misinterpret what is happening, or even take offense at provocative actions or messages. When guerrilla projects are cloaked in secrecy or mystery, people may become uncomfortable or fearful, or the aura of mystery may cause them to interpret the message and goals incorrectly. Similarly, if people feel they have been duped by a guerrilla marketing activity, they may come away with negative impressions. If some people disapprove of a given guerrilla marketing activity or campaign, there's a risk of backlash, anger, and frustration.

Compared to traditional marketing, guerrilla tactics are definitely riskier. Then again, the rewards can be brilliant, when things go as planned.

The Role of IMC in Guerrilla Marketing

As noted above, one telltale sign of guerrilla marketing is the way it blends multiple tactics to create maximum exposure and impact. Most guerrilla marketing campaigns incorporate multiple marketing communication methods and tools to carry out the full vision. This makes them more than IMC compatible—they are really IMC *dependent*. For example, organizers of guerrilla stunts and feats frequently film their activities and post them online to generate (hopefully) viral videos and other content. Real-world guerrilla messages and promotional pieces often include information to access company Web sites, where custom-designed landing pages welcome visitors to the online counterpart of the guerrilla experience.

Social media is a staple of guerrilla marketing. Organizing, publicizing, and sharing a campaign's outcomes and impact may all take place through social channels. Social media also helps generate the buzz that drives guerrilla content to become viral. As guerrilla activities draw media attention, they intersect with PR and media relations.

Try It

Congratulations: you've been learning a lot about IMC, and if the length of this module is any indicator, there's a lot to learn!

Are you sick of just *reading about* integrated marketing communications and ready to actually *try* it?

You're in luck. These simulations give you the opportunity to start up your marketing engine and see what you can do with IMC. Play the simulations below multiple times to see how different choices lead to different outcomes. In this simulation environment, you don't have to shy away from choices that seem a little off: you can learn as much from the wrong choices as the right ones. All simulations allow unlimited attempts so that you can gain experience applying the concepts.

Have fun!

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12.6 USING IMC IN THE SALES PROCESS

Learning Objectives

- Describe the sales process
- Provide examples of how IMC tools can support various stages of the sales process
- Explain how IMC tools support the sales process

As you know very well by now, in every successful transaction, there's a buyer and a seller.

The consumer behavior module of this course describes the decision process consumers go through when they decide to buy something. From the seller's perspective, there is a parallel sales process that companies use to clarify the things they must do to successfully move buyers through their decision process.

In this section of the course, we will examine this sales process and the role of integrated marketing communication in supporting it.

Learning Activities

- Reading: Using IMC in the Sales Process
- Self Check: Using IMC in the Sales Process

Through the Looking Glass: Understanding the Sales Process

Up to this point, we've emphasised the importance of getting into the minds of customers in order to market to them effectively. The consumer decision-making process outlines the key stages people go through when making purchasing decisions. Now we're going to step through the proverbial looking glass to examine that same process from the seller's point of view.

Why is this helpful? For a sale to occur, the buyer must successfully navigate the decision-making process. To help the buyer do that, the seller needs to provide information and assistance along the way. For some products and services, such as those that employ personal selling, the seller's role is very hands-on. For other products and services, particularly ones in low-involvement decisions, the seller's role may be fairly hands-off. In either case, though, it's helpful for marketers to understand the sales process that happens alongside the consumer decision-making process.

Handshake. Authored by: Chuck Patch. Located at: https://www.flickr.com/photos/chuckp/252924532/. License: CC BY-NC: Attribution-NonCommercial

The role of marketing is to work in the middle ground between these processes, providing tools that facilitate the customer's movement through the decision-making process **and** tools that help people responsible for sales *close deals*. When marketers take an IMC approach to this challenge, they can develop timely, well-coordinated marketing tools that effectively support both processes.

The Seller's Viewpoint

The sales process begins by determining where to focus attention, and then proceeds to relationship building and information sharing, helping prospective customers reach a buying decision. The figure below outlines the five stages of the sales process, which correspond to the five stages of the consumer decision-making process.

https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-using-imc-in-the-sales-process/

Stage 1: Generate and Qualify Leads

The first step in the sales process is to find sales leads. A *lead* is an individual who expresses interest in learning more about a product or service. However, simply being interested isn't enough to warrant the seller's full attention. Leads must also be qualified. In other words, the seller needs to confirm that the lead actually has a recognised need for the offering and the ability to pay for it. Once a prospect meets these criteria, the goal from both the marketing and sales perspectives is to move the person successfully through the decision-making process.

Stage 2: Build Relationship and Discover Needs

At the same time, consumers are searching for information about how to address their needs, sellers are searching for information about the consumers and what they are looking for. At this stage a true buyer-seller relationship starts to form: the seller reaches out and probes in order to understand buyer needs. The seller also begins to position herself as a trusted resource to help address these needs. The buyer begins to understand that the seller may indeed be able to provide what he is looking for.

Stage 3: Present Solution and Resolve Concerns

Once a seller understands the needs of a qualified lead, she can effectively present the product or service as a solution to those needs. She has insight into the buyer and understands which features and benefits are most important. She can position the offering accordingly. It is important to present the solution at the same time the consumer is formulating and evaluating alternatives. Inevitably, this evaluation process will raise potential concerns and reservations about the solution. The seller surfaces these issues and provides additional information to resolve them.

Stage 4: Close the Sale

At this late stage of the sales process, the buyer is focused on securing the best deal possible, while also confirming that this decision is the right one. The seller is taking final steps to ensure that her solution is selected and that the purchase is completed. This may involve offering some final, crowning piece of information to instil confidence in the choice and move it over the finish line. It may also involve negotiating final deal terms, pricing, or providing incentives to finalise the decision.

Stage 5: Monitor and Follow Up

This final stage recognises that closing the sale is a gateway into a new and deeper relationship: the active customer relationship. If the seller wants to retain this customer and potentially sell to them again in the future, it is essential to invest in the relationship and ensure they are satisfied with their decision. The buyer hopes to quickly start enjoying the benefits of the new solution. The seller now takes responsibility for effectively delivering the solution. At this stage, if the seller is using personal selling techniques, there is often a personnel shift, and a colleague from customer service, solution delivery, or another team takes over for the seller. What remains constant is the seller's vested interest in monitoring the customer's progress, intending to maximise lifetime customer value.

Alignment between the Sales and Marketing Functions

The marketing and sales functions have common goals in helping to move prospective customers through the purchasing process successfully. Although the *sales process* is often labelled as "sales," in fact, the sales and marketing teams collaborate to make the process effective. It is very common for the marketing team to be responsible for the first stage of the sales process, lead generation and qualification. Marketing can also play a crucial role in establishing relationships with qualified leads, identifying their needs and concerns, and providing valuable information as buyers begin to seek solutions to their problems.

Often, the marketing team collaborates with the sales organisation to develop appropriate tools for the later stages of the sales process as well. Solution presentations, product demonstrations, and other informational tools are all marketing communications artefacts. Marketers can ensure consistent positioning, messaging, and brand alignment by working with sales team members to develop tools that support these stages of the process.

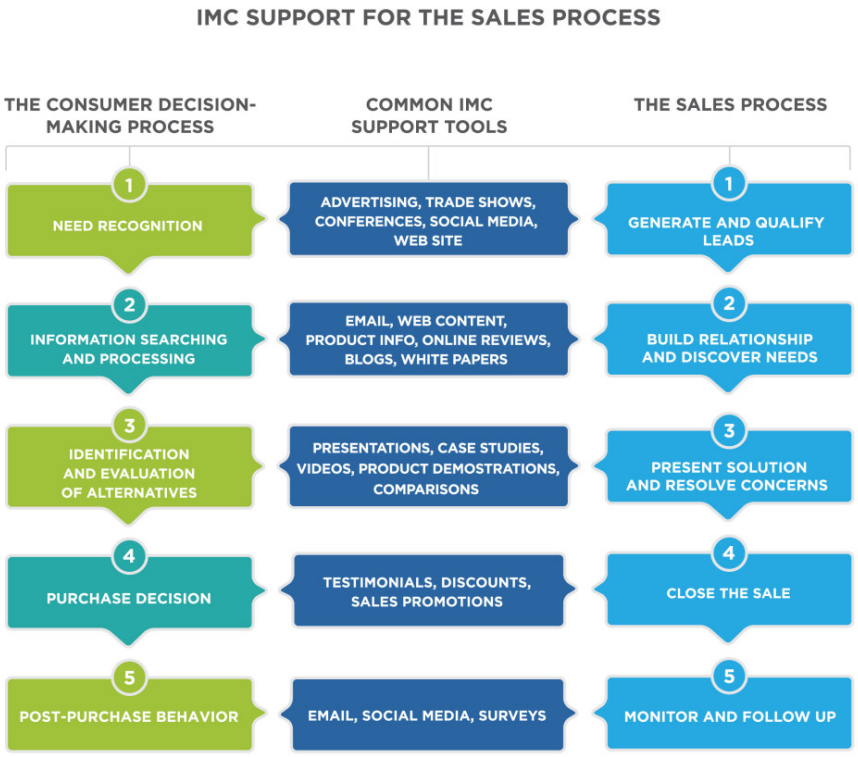
When no personal selling is involved, organisations may rely heavily on Web-based tools and interactions to support these stages of the buying process. Tools such as videos, self-running product demonstrations, free product trials, case studies, and product comparisons may provide sufficient coverage to eliminate the need for dedicated salespeople. However, marketing plays a central role in developing and improving these tools, as well as in managing the

process of connecting buyers to the information they need. Marketing automation tools can add significant power to organisational websites to assist with this process.

Fitting IMC into the Sales Process

So, where does IMC fit in the sales process? Marketing communication tools serve as the fabric that weaves together the consumer decision-making process and the sales process. A common set of IMC tools is responsible for helping both processes function smoothly. Taking an IMC approach to supporting the sales process helps marketers think holistically about what's happening on both the buyer's and seller's parts; a coordinated approach can make these parallel processes happen more effectively.

Various marketing communication tools lend themselves to each stage of the sales process, depending on the nature of the interaction between the seller and the buyer. Although a marketer could conceivably design any IMC tool to support any stage of the process, there are general patterns around the types of marketing communication tactics that work best at each stage, as illustrated in the figure below.



https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-using-imc-in-the-sales-process/

Stage 1: Early in the sales process, optimal IMC tools are those that cast a wide net to build awareness about both the problem and the organisation's products and services that address it, as well as its proposed solution(s). This stage is the widest in the so-called sales funnel. Ideally, organisations take a coordinated IMC approach to lead-generating activities, so that advertising, the website, conferences, trade shows, and social media activity all reinforce one another by using common messaging to share the value proposition.

Stage 2: With qualified leads in hand, the opportunity is ripe for IMC campaigns that target leads based on what they are looking for and their progression through the decision-making process. Electronic direct mail is often an

essential tool at this stage. Website content should be carefully designed to support prospective customers' "information search" processes effectively. By monitoring contacts' progression, the organisation can provide additional materials as needed to keep people interested and engaged.

Stage 3: When a contact recognises that he wants to give serious consideration to the company's products or services, a very solution-focused set of IMC tools comes to the fore. Tools such as presentations, case studies, videos, product comparisons, demonstrations, and free trial offers are all designed to help prospective customers understand the product features and benefits they will enjoy. These tools and the process for accessing them can be integrated into a cohesive campaign that guides people smoothly from one stage to the next as they learn more.

Stage 4: When the buyer and the seller home in on the final selection process and specific terms for sale, another set of IMC tools can be particularly useful. Testimonials and references from satisfied, successful customers can play a crucial role in helping to finalise a decision. At times, offering sales promotions and discounts can make the difference between signing now vs. months from now. By applying an IMC approach to supporting the entire sales process, this stage can feel like a crowning validation of the chosen path, with all the other touchpoints leading to this point.

Stage 5: As the prospective customer becomes an actual customer, IMC tools like email and social media can help deepen and individualise the relationship. A new-customer-orientation IMC campaign, for example, might provide the kickstart a customer needs to move ahead successfully. Online surveys and other feedback tools can help engage new customers, monitor their experience, and confirm that they are receiving the value they expect.

Case Study: IMC and Zombie Apocalypse Supporting the Sales Process

In 2013, it was the height of America's fixation with zombies. The hit TV show *The Walking Dead* was a popular obsession, and the highly anticipated summer blockbuster was the zombie-filled action-horror film *World War Z*. At the time, Christine Nurnberger was a new-to-the-job vice president of marketing. Her boss had challenged her to breathe excitement into the ho-hum reputation of SunGard Availability Services (SunGard AS), a B2B company that helps organisations improve their IT infrastructure to avoid service outages and plan for disaster recovery.

Tapping into the zeitgeist, Nurnberger hit on an almost crazy idea for an integrated marketing campaign: "What better way to convey our message around the importance of having a resilient business infrastructure than to test it by seeing if you could survive a zombie apocalypse."[1]

Almost crazy, but not quite. Nurnberger set her team to designing a pilot to test the concept with a small number of corporate chief information officers who were in later stages of the buying process. This first phase of the IMC campaign used direct mail. Marketers sent a flash drive to the CIOs, informing them of the imminent zombie apocalypse and telling them to stay tuned for a backpack of survival materials, which arrived a few days later. Sales representatives followed up with sales calls, and they were elated to find their CIO sales leads enthusiastic about the creative zombie campaign and open to talking business, as well. The campaign provided sales representatives with the ideal opportunity to discuss the company's offerings and innovations, as well as address concerns about SunGard AS's perceived image as a stodgy "dinosaur" in the IT world.

1. *Multichannel Marketing: IT company's zombie-themed campaign increases CTO 3% at the president and owner level.* (2013, November 20). Marketing Sherpa. http://www.marketingsherpa.com/article/case-study/zombie-themed-campaign-sungard

The first wave went so well that the marketing team expanded the campaign to additional audiences in ways that impacted multiple stages of the sales funnel:

- **All stages:** A version of the campaign targeting industry analysts and influencers with a message about the company's recent updates and innovation. This effort resulted in positive social media posts from analysts about SunGard AS and the campaign. This helped bolster the SunGard AS brand and generate further interest at each stage of the sales process.
- **Stage 1:** A social media campaign and zombie-apocalypse backpack giveaway were initiated to build awareness and generate new leads.
- **Stages 1 and 2:** A targeted campaign was developed to generate, qualify, and educate new leads among IT decision-makers, utilising email, direct mail, and Website content.
- **Stages 2 and 3:** A second targeted campaign focused on recontacting promising sales leads who had stalled during the sales process to restart conversations with SunGard AS. Coordinated IMC elements in this campaign included email, direct mail, personal selling, website content, and social media.

In the following video, Christine Nurnberger explains the approach behind the IMC campaign (including the zombie apocalypse backpack), how her team executed different phases, and the results of the campaign.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=628#oembed-1

You can view the transcript for "How Zombies Helped Deliver the Right Message to the Right Audience at the Right Time" here (opens in new window).

12.7 CUSTOMER RELATIONSHIP MANAGEMENT (CRM) SYSTEMS AND IMC

Learning Objectives

- Discuss how organizations use CRM systems for targeted marketing communication
- Describe the uses of customer relationship management (CRM) systems for marketing communication purposes

An important tool for sales and marketing activities is the customer relationship management system (CRM). At their core, CRM systems are software systems used to collect and manage information about customers and prospects, making them a valuable source of internal data. CRM system providers have also built a set of technology tools around this core to help marketers analyze customer information and use it to create smarter, better targeted, and more effective marketing communication.

In the next section, you'll learn about the role of CRM systems in helping marketers deliver the right types of marketing campaigns and interaction opportunities to the right people at the right time.

Learning Activities

- Reading: Customer Relationship Management (CRM) Systems and IMC
- Self Check: Customer Relationship Management (CRM) Systems and IMC

Using CRM to Support Marketing Communication

Earlier in this course we introduced customer relationship management (CRM) systems, which serve key functions for marketing, sales, and account management. These systems capture data about customers as well as an organization's interactions with these customers. They also provide tools to help marketers and salespeople better manage customer relationships and meet their customers' needs. CRM systems generally capture and maintain information about prospective as well as current customers, making them very useful to both marketing and sales processes.

The overall business goals of CRM systems are to help organizations 1) capture new leads and move them through the sales process; 2) support and manage relationships with current customers to maximize their lifetime value to the company; and 3) boost productivity and lower the overall costs of marketing, sales, and account management.

CRM systems can be complicated to implement because they are intended to support a complex set of processes and business functions. At times, the systems themselves are so sophisticated that organizations never fully use all their capabilities. However, a wide selection of CRM systems are now available at different levels of pricing and complexity. As managers refine their understanding of how CRM systems can help them achieve their business and marketing objectives, they can identify suitable systems and implementation approaches to fit their needs.

CRM Uses in Sales and Marketing

CRM systems are transformational for marketing communication because they allow marketers to use customer data to personalize their interactions to fit the unique needs of individuals. When marketers or salespeople know more about the customer–thanks to information the CRM telling them who the customer is, how she found the company, what information she has requested, and so forth–they can anticipate that person's needs and tailor the next set of interactions to help her progress through the decision-making process.

Information gained through CRM initiatives can support the development of sales and marketing strategy by developing the organization's knowledge in key areas: identifying customer segments, improving customer retention, improving product offerings (by better understanding customer needs), improving the customer experience, and identifying the organization's most profitable customers.

In the following video, Amazon CEO Jeff Bezos explains how his company captures data about what products customers buy to tailor the shopping experience every time someone visits the Amazon Web site. The customer data, captured in Amazon's CRM system, feeds a "recommendation engine" to suggest products Amazon thinks customers will want, based on their prior purchases and the purchase histories of other customers who buy the same types of things they do.

https://youtube.com/watch?v=I952kdcpE3Y

You can view the transcript for "Personalize Recommendations Online" here (opens in new window).

Marketing and IMC

CRM systems for marketing help an organization identify and target potential clients and generate leads. A key marketing capability is tracking and measuring the effectiveness of multichannel campaigns, including email, search, social media, telephone, direct mail, and other channels. The CRM system can monitor which individuals click,

respond, and participate in any call to action. It also reports overall campaign metrics such as clicks, responses, leads generated, deals closed, and revenue. Many CRM systems are capable of tracking customer interactions and nurturing relationships from first contact through the closed sale and beyond, providing a 360-degree view of the customer relationship.

Marketing automation uses data from a CRM system to help marketers coordinate and manage marketing interaction across multiple digital-marketing channels—email, Web sites, social media, etc. Marketers use marketing automation systems to design and execute marketing campaigns targeted to specific segments based on various criteria. Campaigns might target individuals in the CRM system by job title, industry, or geography, for example, or some combination of individual traits. Campaigns may also be designed around the stage of the sales process, so that everyone at a certain stage receives a weekly email or other touch points to provide further information and help nudge the contact toward the buying decision.

Marketing automation is particularly good for automating repetitive tasks, so that marketers can maintain interaction and build relationships with a large number of contacts simultaneously. But because CRM data tracks what each prospective customer is looking for and where they are in the decision process, marketers can orchestrate an appropriate set of automated interactions to keep the relationship "warm" and eventually move them toward a sale.

Based on the characteristics and behavior of the prospective customers captured in the CRM system, marketers can also direct the system to conduct "lead scoring." Lead scoring involves assigning points to marketing or sales leads to help marketers prioritize who is most ready to buy and move them toward a buying decision. For instance, B2B marketers could define lead scoring as follows:

- 8 points to every contact that resides within a targeted geography
- 7 points for sharing an email address
- 8 points for sharing job title
- 15 points to any contact who holds a position as vice president or higher in their organization
- 3 points each time a contact visits the company's Web site
- 5 points each time a contact downloads a document or views a video on the Web site

The system calculates the total score for each lead, indicating which contacts are the best-prepared targets for making a sale. Marketing and sales team members then target appropriate marketing campaigns and outreach opportunities designed to help leads continue progressing through the sales process.

Sales Force Automation

Salesforce automation (SFA) is another function of many CRM systems. It involves using software to streamline all phases of the sales process, minimizing the time that sales representatives need to spend on each phase. This enables a business to use fewer sales representatives to manage their clients. At the core of SFA is a contact management system for tracking and recording every stage in the sales process for each prospective client, from initial contact to final disposition. Many SFA applications also provide reporting and analytical tools to give salespeople and managers insights into specific sales opportunities, territories, and forecasting future sales. Some also offer workflow automation tools to help streamline sales-related processes and improve both the quality and efficiency of sales teams' interactions with prospective customers.

As with marketing automation, sales force automation can help salespeople streamline the task of communicating with prospective customers during the sales process. A salesperson can set up automated triggers to send specific communications to sales leads at various points in the process. For example, when an individual requests a product

demonstration, a sales automation system might automatically send a set of communications to set up a virtual meeting for the demo. The system could then check whether that lead has downloaded a marketing piece comparing product features versus competitors'. If not, the system would automatically send that informational piece in a follow-up email message.

CRM and Marketing Automation in Action

The following video explains how a Precor, a B2B gym equipment company, uses its CRM system with marketing automation to better understand and anticipate customer needs. It translates the information from the CRM system to more efficient marketing, better customer service, and increased sales. This video was produced by Salesforce.com, the CRM company that provides the two systems Precor uses: Sales Cloud (CRM) and Pardot (marketing automation system). Notice that the video not only trumpets the value of these systems, but the video itself is a polished piece of marketing communication (promoting Salesforce.com).

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=632#oembed-1

12.8 MEASURING MARKETING COMMUNICATION EFFECTIVENESS

Learning Objectives

- Discuss the importance of measuring marketing communication effectiveness
- Identify key performance indicators (KPIs) that are useful for measuring the effectiveness of marketing communications
- Explain common tools used to measure marketing communication effectiveness

After all the creativity, work, blood, sweat, and tears that go into a successful marketing campaign, your work is not done until you have measured the campaign's impact to learn where it succeeded and where it didn't. Every campaign represents a significant investment of resources, so if you don't take the time to learn from your campaign before moving on, you are losing a substantial part of that investment. Also, an effective campaign may contain tactics that you can use again—but you'll want to know which ones worked. Think about it: every campaign you run can make you smarter!

Learning Activities

- Reading: Measuring Marketing Communication Effectiveness
- Self Check: Measuring Marketing Communication Effectiveness

Why Measure?

Measurement is an important aspect of marketing campaigns and other marketing activities. Measurement makes some people nervous because it brings accountability to marketing activities. In fact, this step can be one of a marketer's best friends. If you don't measure the impact of your marketing efforts, you'll have no idea whether what you are doing is effective or not. On the other hand, if you do measure the impact, it will help you understand what is working, and where and how to improve your efforts. By nature, marketing is a dynamic field because markets are constantly evolving, and people's needs and preferences change. What works beautifully this year may be a complete flop next year, and vice versa.

Measurement — and the results or "metrics" this process collects — are like a compass that helps marketers adjust their course so they can reach their goals more quickly and effectively.

Deciding What to Measure

Measuring just for the sake of having numbers misses the whole point. It's actually essential to determine the right things to measure first if you want to get a relevant picture of what's happening. To achieve this, marketers typically undergo a process of identifying **key performance indicators** (often referred to as KPIs). A KPI is a measurable indicator that shows the progress an organisation is making toward its business objectives. The KPI is not the same as the company's actual goal or objective; instead, it is a measurable indicator that helps managers understand how well they are progressing toward the goal.

To understand the importance of KPIs, let's say you are a track coach who wants to capture data about the sprinters on your team. You could measure all sorts of things about the athletes: their shoe size, how many cups of sweat they produce during a typical workout, how fast their hearts beat during a race, and so on. Would all those measurements be key performance indicators? Maybe not. You might decide that the key performance indicators for sprinters are their best running times and their average running times (or something else).

In a company, KPIs can be determined for many different levels of the organisation. These are described below:

- **Company-level KPIs** measure the overall company performance in achieving company-wide goals, including total revenue, profitability, customer satisfaction rating, market share, and percentage of growth in the customer base.
- **Department-level KPIs** track performance at the department level. For the marketing department, it might be brand awareness, the number of qualified new leads generated, cost per lead generated, or the *conversion rate*: the percentage of leads that are converted into customers.
- **Team-level KPIs** track the impact and effectiveness of a team's activities. A team focused on digital marketing, for example, might track KPIs such as email-marketing click rates, the number of website visits, or SEO sales conversion rate: the percentage of individuals who come to the website via a search engine and result in a sale.
- **Campaign-level KPIs** track the impact of individual campaigns. By tracking similar metrics across multiple campaigns, it is easy to see which ones are most effective with target audiences and then use this information to refine tactics and replicate successful approaches. Campaign-level KPIs are somewhat dependent on the cam-

paign design; for example, campaigns typically track the "open" rate: i.e., how many people open an email message once it is delivered. If a campaign doesn't use email, the open rate doesn't exist. However, there are some "common denominator" campaign metrics marketers can track across IMC activities to determine impact and progress. Cost per impression, impressions per campaign, and conversion rate are metrics that can be tracked for virtually any campaign.

- **Marketing tactic-level KPIs** track the effectiveness of individual marketing tactics and tools. For example, content marketing KPIs track the effectiveness of individual content pieces used on a website and in integrated marketing communications (IMC) campaigns. These metrics, such as page views per article and number of social media shares, provide insight for marketers about which types of content are most popular with target customers and which content pieces get little interest.

Different companies select different sets of KPIs, depending on what they are trying to accomplish and the strategies they are pursuing to reach their goals. At any given level, it is important to limit the total number of KPIs to those that are most essential and indicative of progress. If too many things are measured, managers have trouble prioritising and homing in on what is most important. In addition to KPIs–which represent key, strategic indicators of progress–a company may also track a variety of other metrics to inform its operations.

Alignment with Goals and Objectives

Figuring out what to measure starts with considering the organisation's overall goals and objectives, as well as the marketing team's goals and objectives. The highest-level KPIs should inform managers about how well marketing is performing in meeting its goals as a team and how the team is contributing to the organisation's overall performance. KPIs may reflect absolute figures, such as total market share. Alternatively, they may track progress toward a target, such as achieving 1,500 new customers over the course of a year. KPIs should provide managers with information to guide their decision-making about what is working and where to adjust the course.

It is helpful for an organisation to define a standard set of KPIs for measuring the effectiveness of marketing campaigns and for the contributions made by different functions within the marketing organisation: public relations, advertising, social media marketing, etc.. When marketers define S.M.A.R.T. goals at the outset of a campaign, these goals may incorporate KPIs to confirm what the campaign aims to achieve and how well it achieves these goals. KPIs for awareness-building campaigns, for example, should be focused on campaign reach, such as the number of impressions or post-campaign brand awareness.

Managers should be attentive to the number of KPIs they are tracking to ensure that measurement remains a useful activity rather than a burden that cuts into the productivity and effectiveness of the broader team. Fortunately, as marketing becomes more data-rich and technology-driven, many KPI-type metrics are calculated automatically by systems that support the marketing function, making them readily available. Tools are also available that create dashboards for marketing managers and team members to help them easily monitor key performance indicators (KPIs) on an ongoing basis.

Defining the Metric

Every marketing metric or KPI requires some type of measurement, and it should be based on legitimate data. When marketers define a KPI, they should also define what data will be used to calculate the KPI, as well as the source of

that data. At times, different people or teams might have different assumptions about how to calculate the metric, so it is wise to clarify this during the definitional stage.

It isn't uncommon for people to identify KPIs and then discover that they don't have ready access to the information needed for measurement. This can be a good motivator for defining a process to obtain that information. Alternatively, it may be a cue that a different KPI, based on more readily available information, would be a better option.

When to Measure

When to measure depends on what is readily available for marketers and managers to track and maintain. If generating a KPI report requires a significant amount of manual effort, or managers spend hours per day or week compiling and reporting metrics, it could significantly reduce productive work time. In such cases, it may be wise to investigate alternatives. Fortunately, CRM and other systems that build KPI dashboard reports into their regular, day-to-day functions are readily available. In these cases, systems automatically calculate KPIs, which makes them easy to monitor over time and adjust course as needed. Typically, managers should monitor KPIs at least once a quarter to gauge progress and identify what's working and how to improve.

Video: Defining KPIs

The following video provides an overview of different types of key performance indicators and the process of defining them.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=636#oembed-1

You can view the transcript for "The Problem With Key Performance Indicators (KPIs)?" here (opens in new window).

Examples of Key Performance Indicators

Different types of KPIs focus on measuring progress and effectiveness in various marketing-related areas. In fact, hundreds of possible KPIs exist, so marketing managers should figure out which ones matter most for achieving their goals and focus attention accordingly. The section and table below list a variety of KPIs applicable to different aspects of marketing communications and the marketing function as a whole.

Marketing-Related Business Objectives Sample KPIs

Sales/Revenue Generation Sample KPIs

- Total sales/revenue
- New/incremental sales revenue
- Profitability
- Average revenue per customer
- New customer acquisition
- Number of customers
- Customer retention
- Number of registrations/sign-ups

Market Share Sample KPIs

- Market share in category
- Relative market share (share relative to the largest competitor).

Lead Generation Sample KPIs

- Number of qualified leads
- Cost per lead (by source/platform)
- Traffic source breakdown.

Build Brand Sample KPIs

- Brand awareness
- Brand equity
- Price premium
- Brand valuation
- Share of voice: mentions of your brand/mentions of others
- Brand community membership.

Foster Dialogue Sample KPIs

- Audience engagement
- Share of voice: mentions of your brand/mentions of others
- Conversion reach.

Develop Customer Advocates Sample KPIs

- Active advocates
- Advocate influence
- Advocacy impact

- Online review ratings.

Customer Support Sample KPIs

- Resolution rate
- Resolution time
- Satisfaction score
- Net Promoter Score (NPS).

Innovation Sample KPIs

- Topic Trends
- Sentiment Ratio
- Idea Impact.

Marketing-Related Business Objectives and Sample KPIs (Source: https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-measuring-marketing-communication-effectiveness/)

Business Objective	KPI Examples
Sales/Revenue Generation	Total sales/revenue New/incremental sales revenue Profitability Average revenue per customer New customer acquisition Number of customers Customer retention Number of registrations/sign-ups
Market Share	Market share in category Relative market share (share relative to largest competitor)
Lead Generation	Number of qualified leads Cost per lead (by source/platform)Traffic source breakdown
Build Brand	Brand awareness Brand equity Price premium Brand valuation Share of voice: mentions of your brand/mentions of others Brand community membership
Foster Dialogue	Audience engagement Share of voice: mentions of your brand/mentions of others Conversion reach
Develop Customer Advocates	Active advocates Advocate influence Advocacy impact Online review ratings
Customer Support	Resolution rate Resolution time Satisfaction score Net Promoter Score (NPS)
Innovation	Topic Trends Sentiment Ratio Idea Impact

Marketing Communications Activity Sample KPIs

Reach: Campaigns, Owned Media, Earned Media, Social Media, Marketing Content

Sample KPIs

- Impressions
- Potential Reach: Followers, Fans, Subscribers
- Confirmed Reach: Views, Post/Page Views, Video Views

- Hits/visits/views
- Repeat Visits
- Conversion rates (from visitor or buyer)
- Buzz indicators (web mentions)
- Net Promoter Score (NPS)
- Customer acquisition cost

Engagement: Owned Media, Earned Media, Social Media, Marketing Content

Sample KPIs

- Likes/Stars/Hearts
- Comments
- Shares
- Retweets/Reposts
- Positive/negative sentiment
- Impressions
- Cost per click (CPC)
- Cost per impression (CPM)
- Click-through rate (CTR)
- Customer Retention Cost
- Profits per customer
- Customer acquisition cost

Paid Media: Advertising Sample KPIs

- Impressions
- Cost per click (CPC)
- Cost per impression (CPM)
- Click-through rate (CTR)
- Customer Retention Cost
- Profits per customer
- Customer acquisition cost

SEO/Web Site Sample KPIs

- SEO keyword ranking
- SEO sales conversion rate
- Number of unique visitors
- Total sessions/visits
- Average time on site/page

Email Marketing Sample KPIs

- Open rate
- Click-through rate (CTR)
- Bounce rate
- Unsubscribe rate

Public Relations Sample KPIs

- Advertising value equivalency
- Clip/article counting
- Brand mentions

Marketing Communications Activity Sample KPIs (Source: https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-measuring-marketing-communication-effectiveness/)

Marketing Activity/Tool	KPI Examples
Reach: Campaigns, Owned Media, Earned Media, Social Media, Marketing Content	Impressions Potential Reach: Followers, Fans, Subscribers Confirmed Reach: Views, Post/Page Views, Video Views Hits/visits/views Repeat Visits Conversion rates (from visitor or buyer) Buzz indicators (web mentions) Net Promoter Score (NPS) Customer acquisition cost
Engagement: Owned Media, Earned Media, Social Media, Marketing Content	Likes/Stars/HeartsComments Shares Retweets/Reposts Positive/negative sentiment
Paid Media (advertising)	Impressions Cost per click (CPC) Cost per impression (CPM) Click-through rate (CTR) Customer Retention Cost Profits per customer Customer acquisition cost
SEO/Web site	SEO keyword ranking SEO sales conversion rate Number of unique visitors Total sessions/visits Average time on site/page
Email Marketing	Open rate Click-through rate (CTR)Bounce rate Unsubscribe rate
Public Relations	Advertising value equivalency Clip/article counting Brand mentions

Campaign Metrics Case Study: Citizen Watch

Citizen, one of the world's largest makers of wristwatches, embarked on a digital marketing strategy to build its brand using social media, with a specific focus on expanding its presence on Facebook. The marketing team's goal for the first year was to gain 100,000 followers on Facebook. Their campaign strategy focused on offering engagement opportunities that encouraged people to visit Facebook and interact with the brand. It incorporated a combination of tactics that included both offline and online elements, such as a series of register-to-win contests, including a "Win Your Mum a Watch" giveaway. It also offered related online engagement opportunities, such as interactive photo galleries on the company website, allowing people to browse, view new products, and share them on social media.

Citizen Watch. Authored by: Kansai explorer. Located at: https://commons.wikimedia.org/wiki/File:Citizen_Attesa_Eco-Drive_ATV53-3023_02.JPG. License: CC BY-SA: Attribution-ShareAlike

To help gauge their progress and understand how well different dimensions of the campaign were working, they tracked a variety of metrics, with one key performance indicator (KPI) being the number of Facebook followers. Throughout the campaign, they achieved impressive results. In addition to blowing through their goal of getting 100,000 followers, Citizen saw the following results from consumers who participated in campaign activities:

- 76 per cent lead-submission rate
- 82 per cent app-completion rate
- 26 per cent social-share rate

By tracking these metrics across different offers and campaigns, Citizen was able to gauge which activities were most well-received and use this information to improve the effectiveness of future campaigns. The company has leveraged these insights to expand its promotional activities to other social media platforms and various engagement activities.[1]

1. *Citizen Watch Drives Social Engagement With Interactive Content.* (n.d.). SnapApp.http://cdn.snapapp.com/site/images/resources/SnapApp-CaseStudy-CitizenWatch.pdf

12.9 DEVELOPING A MARKETING CAMPAIGN AND BUDGET

Learning Objectives

- Identify key elements of an integrated marketing communications plan, including promotional mix, tactics, timing, ownership, measurement, resources and budget requirements
- Discuss how to create a budget for an integrated marketing communications plan
- Explain why it is important to consider potential risks to the business associated with an IMC plan
- Create a marketing campaign and budget using multiple IMC tools to execute a marketing strategy

Marketing campaigns can be challenging to execute because they have so many complex, moving parts. That's why it's essential to plan. Planning a marketing campaign helps crystallize what you are going to accomplish and how it will happen. It helps you identify gaps in your thinking and fill them before it's too late. Planning helps you stay on budget, and it helps ensure that you and your manager are on the same page about what is happening and who is involved.

In the world of marketing, planning is your friend.

Learning Activities

- Reading: Developing a Marketing Campaign and Budget
- Self Check: Developing a Marketing Campaign and Budget

Planning for Action

As you can appreciate at this point—especially after learning about all the available IMC methods and tools—IMC is complicated and often elaborate. Even simple marketing plans require multiple steps to execute effectively. For this reason, marketers routinely create campaign plans (also called IMC plans), which carefully list each step required to complete an IMC project. These "action plans" fit into a broader marketing plan and are used to document the actual steps that need to happen, when, and who is responsible for them.

Campaign plans help marketers to think ahead about how they will execute the promotional mix. The campaign plan ensures that the entire marketing team has a common vision for what they are working toward and what role each person will play in achieving it. By thinking through exactly which marketing communications tools will be needed and how they will be used, managers can ensure that the plan fits within budget and that they have sufficient resources to pull it off. Campaign plans provide the critical element of timing by specifying each step in the process and when it must take place, so that the whole effort is well coordinated.

In IMC projects, different touchpoints are designed to support and build on one another; the campaign plan helps ensure that each piece is in place when it's needed. For example, suppose social media posts about a new product announcement include a link to a product information page on a company's Web site. The campaign plan helps remind marketers that they must build the new product information page before the social media posts can go out.

Campaign plans are intended to coordinate a set of related activities focused on a common goal–the campaign objectives. If a marketing team is executing more than one campaign at the same time, generally it works best to create a separate plan for each one. If it's helpful during the execution phase, team members can merge individual campaign plans into a single master plan.

Once a marketing team is focused on executing an IMC campaign, the campaign plan is the tool everyone works from. If an adjustment is needed, it's simple for managers to make changes in the centralized plan and move forward. Everyone stays on the same page.

Campaign Plan Components

Effective marketing campaign plans require several elements that, together, paint a complete picture of what the marketing team will execute with their IMC tools. These include the following:

- **promotional mix:** identify the marketing communication methods to be used
- **resource and budget requirements:** outline the funding and other resources needed to execute the plan and explain how the plan will use the available budget
- **tactics:** identify the specific marketing communication tools and tactics to be used, as well as the target audience for each
- **timing:** clarify when each tactical step needs to take place, in order to meet the campaign objectives
- **ownership:** identify which team or team member is responsible for executing each step
- **measurement:** select the metrics to be tracked in order to gauge the campaign's impact, and explain how the data will be captured

Different organizations use different formats for compiling all of this information into a campaign plan. The sample frameworks below provide useful examples of the types of planning frameworks used by marketing departments.

Campaign Budget Plan Framework

The first step in developing a campaign budget plan is to start with the total budget available to spend on a campaign. This budget figure works as a guardrail or constraint to keep your plans in line with the available resources. Next, think about the promotion mix you have in mind. Will there be advertising? Digital or direct marketing? Any public relations activities? And so forth. List the different methods and key tools you plan to use, and then determine how much of your budget you plan to spend on each.

Example: Promotional-Mix Budget Template

The promotional mix and budget allocation for a local chain of ice-cream shops might be as follows:

Promotional Mix and Budget Allocation

Promotional Mix Elements	Budget Allocated
10%: Direct marketing: email campaigns	$500
10%: Digital marketing: Website messaging update; contest pages, social media	$500
25%: Advertising: sidewalk sandwich boards, localized digital ads on Facebook	$1,250
45% Sales promotion: coupons, create-a-flavor contest, sidewalk samples, in-store posters	$2,250
10%: Public relations: press releases	$500
Total	**$5,000**

Once you've outlined the promotional mix and how you plan to allocate your budget across different marketing communication methods, it's a good idea to put together a detailed budget listing the specific elements that require out-of-pocket spending and how much they cost. In preparing the detailed budget, marketers should conduct research by contacting suppliers or comparison shopping online to confirm that they are accurately estimating the ballpark costs for each item. In the detailed budget, it is also useful to list employee labor and the time needed to execute the plan. This gives the managers of the organization better visibility into the total cost of executing the campaign. The following is a useful framework for developing a detailed budget.

Example: Budget-Detail Template

The detailed budget template for the same local ice-cream shop campaign might be as follows:

As you go through this detailed budgeting process, you may find you need to scale certain elements of the budget up or down in order to fit within the total project budget. This exercise helps marketers think realistically about the trade-offs and how to ensure the project makes the greatest impact possible with the available resources.

Estimating Campaign Impact

Before you have conducted marketing campaign among a target audience, it can be difficult to estimate what its expected impact will be, because you are working in the realm of the unknown. However, once you have begun conducting campaigns, you have a better sense of their scope and scale and how many people you will reach. In the absence of that information, marketers can use a few different factors to estimate campaign impact:

- What are your marketing campaign goals? Marketers may simply use campaign goals to estimate the impact. This may be because they plan to adjust tactics as they go in order to meet these goals. Or it may be because once they meet the goals, the campaign will have done its job and it can be ended.

- How many people will you reach with your planned IMC activities, and what proportion of them do you expect to respond? Marketers can use a variety of figures to estimate how many people they will reach with a campaign, such as the size of an email list, a local population size, the number of social media followers, the average number of store visitors, advertising impressions purchased, etc. Based on these "reach" figures, marketers can estimate what percentage of people who are exposed to the campaign will participate and what their impact will be: new customers, increased sales, site visits, donations received, etc.

For some types of campaigns the estimated impact may be more difficult to quantify and express as a number. For example, awareness of a public health issue or having a positive/negative perception of a candidate or brand might be an important result. Even in these situations, marketers should identify some way to estimate and measure their impact, so that they have some indicator about whether their efforts have made a difference. Survey research, social media mentions, website visits, or other metrics might be appropriate proxies for estimating impact, depending on the issue and target audience.

Campaign Action Plan Framework

Once you've got the promotional mix and detailed budget in place, the next step is to map out key steps and milestones for executing the campaign, as well as who will execute each step. This is the campaign action plan. For instance: If your campaign coincides with a new product launch planned for a specific date, then you need to add tactics prior to that date to support the new product launch—e.g., a Website update, a press release, an email campaign, etc. If your campaign involves attending a trade show, think through and list all the things that need to be in place to make that event successful: fliers, signage for an exhibitor booth, a product demonstration script, how to capture leads from the event, and how you will follow up with them, etc. In the campaign action plan template below, note how the plan captures not only the steps that need to happen and when, but also the audience and internal owner for each step. This information helps marketers maintain a clear understanding of each campaign element, whom it will reach, and who is responsible for executing it.

Example: Campaign Action Plan Template

A partial action plan template for a local ice-cream shop campaign might look like this:

Budget Detail Template Example

Ice-cream Shop Budget

Item	Purpose	Cost Estimate
Email-campaign template	Direct marketing: professional design for standard email template for use in multiple campaigns	$500
Web-site contest pages, internal ads	Digital marketing: professional design for Web pages and forms for create-a-flavor contest, sidewalk tasting events, internal site "ads" for contest	$500
Ad design work	Advertising: designer work for sandwich boards, online ads	$250
Facebook ads	Facebook ads targeting local areas	$650
Sandwich boards	Advertising: three sandwich boards for display outside shops	$350
Coupons, contest fliers, in-store posters	Sales promotion: design and production to match other campaign-related materials	$400
Coupon value	Sales promotion: estimated cost of redeemed coupons	$350
Sidewalk sample cost-of-goods	Sales promotion: cost of ingredients, materials, extra labor for executing sidewalk tasting events	$1,500
Press releases	PR firm assistance with press release writing, local distribution	$500
Internal labor	Employee labor to execute campaign: email campaign, social media, web updates, ad purchases, contest management, local placement of coupons, fliers, overall project management	25% time of one employee over duration of campaign
Total	All costs excluding employee labor	**$5,000**

Campaign Action Template Example

Ice-cream Shop Campaign

Timing	Activity Type	Brief Description	Audience	Owner
3 March	Designer creative brief	Draft a creative brief outlining all campaign elements we want designer to complete	Designer	Martina Hagen
28 March	Design work complete	Approve email template, Web-site updates, digital ads, sandwich boards, posters, coupons, fliers	Local public, families, foodies	Designer with Martina
5 April	Production of print materials	Complete production of posters, sandwich boards, coupons, fliers	Local public, families, foodies	Martina Hagen
6 April	Employee briefing	Conduct campaign-information sessions with employees; share campaign materials, go through frequently asked questions	Employees	Martina Hagen with store managers
7 April	Campaign launch: in-store	Prepare in-store display for campaign: posters, fliers, coupons, contest information	Store customer	Store managers
7 April	Campaign launch: digital	Activate and test website updates and campaign pages/ forms; send targeted campaign email messages about contest and sidewalk tasting events	Store "friends" email list; purchased residential email list	Martina Hagen
8 April	Campaign launch:sSocial media	Initiate social media activity: Facebook ads, daily social media posts from store, employees, friends	Local public, families, foodies	Martina Hagen
16 April	Sidewalk tasting event #1	Hold sidewalk tasting event at downtown store, 12:30–4:30 pm	Walk-up traffic, local customers, and friends	Designated store employees with Martina
Etc.	Etc.	Etc.	Etc	Etc.

Internal communication is a common shortcoming in integrated marketing campaigns, when marketers do not take the time to bring their fellow employees up to speed on what's happening and how a campaign may affect them. Be sure to include steps in the plan for communicating internally about the campaign with fellow employees and teams who need to know about it and who may help execute the campaign, directly or indirectly. For example, all employees involved in sales should be aware of any sales promotions, so they know what to expect, understand the rules for applying them, and know-how to answer customer questions. As you prepare the campaign plan, lookout for ways to integrate your marketing activities, so they build on one another to amplify your message and impact. For example, use advertising to announce a sales promotion, and reinforce both with social media posts that link to your website. Think of this plan as your blueprint for using all the tools available to you to get your message out. Anticipate risks and complications once a campaign is defined and the action plan is in place. It's helpful to identify any noteworthy risks or dependencies that might put your campaign in jeopardy. For example, if the campaign relies on one person to make everything happen and that person gets sick or decides to take a new job, then that's a risk that managers should know about. Below are a few more:

- **people:** being able to count on key individuals having the capacity, availability, and skills to execute the campaign effectively
- **technology:** knowing that the technology works effectively to execute the plan and achieve the goals of the

campaign

- **funding:** having enough money and resources available to support the campaign; managing the campaign to fit the budget; ability to control cost overruns
- **innovation:** anything new and untested represents risk, such as tools, ideas, people, technologies, products, delivery methods
- **competition:** competitors' activities that may gain advantages over, attack, undermine your business
- **economy:** economic downturns create uncertainty and instability, make consumers less inclined to spend money
- **communication:** communicating sufficiently to make sure all stakeholders are informed, messaging is well received, and various aspects of the campaign are well coordinated
- **"acts of God":** weather, natural disasters, and other catastrophic events represent unforeseen risks and complications. Although there is always some low-level, persistent risk associated with these factors for everybody everywhere, some marketing activities might be more susceptible. For example, the success of an outdoor event may be highly dependent on favorable weather conditions.

Weaknesses from an organization's SWOT analysis are also worth considering as part of this step. Once marketers have identified potential risk factors and complications, they can determine which ones are a significant threat and how to create contingency plans for anything that is of particular concern. By anticipating and planning for anything of major concern, marketers increase their likelihood of success for a campaign to meet its objectives, on time and on budget.

12.10 PUTTING IT TOGETHER: PROMOTION: INTEGRATED MARKETING COMMUNICATION (IMC)

The readings in this module pulled apart the different pieces of integrated marketing communication to help you understand the role each one plays in creating and executing an effective marketing campaign. From small-scale and simple promotional programs to massive and complex undertakings, the same basic building blocks are required: target audience, message, strategy, promotional mix, budget, action plan, measurement. That's the IMC recipe.

Now that you've spent time learning more about that recipe, let's go back to where we started with IMC. In the "Why It Matters" section introducing this module, we asked you to watch videos about two very different and successful IMC campaigns. Before we wrap up our discussion of IMC, take a moment to watch the American Express video again. This time, see if you can pick out the ingredients in the recipe:

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=642#oembed-1

You can view the transcript for "38. AMERICAN EXPRESS OPEN "Small Business Gets An Official Day"" here (opens in new window).

Video Take Two: American Express Small Business Shopping Day Campaign

The Recipe

- **Goal:** Generate more customers for small businesses by establishing "Small Business Saturday" (SBS) as a fixture in the annual U.S. holiday shopping season
- **Target Audience:** 1) small business owners, 2) American consumers and 3) public officials
- **Message:** Make "Small Business Saturday" a part of your holiday tradition. Shop small!
- **Strategy:** Put American Express's small business customers at the center of a marketing campaign. Use a three-prong approach, mobilizing three different stakeholder groups needed to make the idea a reality: 1) get small businesses to participate by providing promotional tools and publicity; 2) get public officials to endorse SBS and speak about it publicly; 3) get consumers to participate by shopping at small businesses on SBS (year over year).

- **Promotional Mix:** Advertising, digital marketing (including Web, social media, content), public relations, sales promotion, including interactive elements with each target audience. Marketing activity for small business owners centered on a digital toolkit for them to promote SBS locally: badge-style logo, posters, social media marketing tools, a video ad-making tool, a Facebook page-builder tool, and an offer to launch online deals through FourSquare. Outreach to public officials was a full-scale public relations effort, contacting local, statewide, and national public officials to inform them about SBS and ask them to lend public support to the effort. A U.S. Senate resolution made Small Business Saturday an officially recognized day, and all this PR generated lots of news stories. To reach consumers, American Express used advertising on social media, as well as paid media placement for SBS on social channels such as Facebook, Twitter, FourSquare. It invested in consumer-focused social media and Web campaigns, inviting people to join an online "pledge" to shop make a purchase at a small business on Small Business Saturday.
- **Budget:** American Express has not disclosed how much it spent on the campaign, but its continued support for SBS in subsequent years suggests it was a worthwhile investment.
- **Action Plan:** Detailed action plans for each element of the campaign aren't available, but the video did clarify the careful sequencing of the campaign's outreach to each target audience: 1) get businesses on board, 2) get public officials on board, 3) get consumers on board. With each step it made Small Business Saturday more real.
- **Measurement:** More than 500,000 small business owners participated, and many owners reported higher traffic and sales. More than 100 million Americans shopped in small businesses across the country. Communities in a majority of U.S. states supported the effort. On the day of the first Small Business Saturday, it was a top-10 trending topic on Twitter, and by the second year it had garnered 2.7 million "likes" on Facebook, more than double the first year. For American Express, card transactions were up 23 percent on Small Business Saturday 2011.[1]

With this campaign, American Express used IMC tools to not only reach its target audiences with a great message but also to get them to take action. In fact, stimulating action was essential. If any target audience–the small business owners, public officials, or consumers–failed to act, Small Business Saturday would have flopped! Recognizing how essential "action" was to this campaign, American Express marketers make expert use of interactive digital and social media to engage each of its target audiences and help the campaign take off.

Using IMC to Inspire and Provoke

Small Business Saturday and other IMC campaigns discussed in this module provide a variety of great and creative examples for how to promote products, services, events, and organizations. You should recognize that IMC can also

1. Neisser, D. (2012, November 20). Myth busting with small business Saturday. Marketing Daily. http://www.mediapost.com/publications/article/187192/myth-busting-with-small-business-saturday.html

be a powerful tool for promoting ideas. This final video features a campaign by Amnesty International, a nonprofit organization, aiming to "wake up" the inner human rights activist inside each of us by creating provocative situations that cause people to step up and defend human rights, even in an economically stable, democratic society.

As you watch this video, look for the IMC recipe it follows to achieve its goals.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=642#oembed-2

You can view the transcript for "Amnesty: Wake up, humans!" here (opens in new window).

12.11 FOCUS ON DIGITAL MEDIA MARKETING

Learning Objectives

- Understand the role digital media play in marketing.
- Identify the types of digital media.

What is Digital Media?

The next segment of this chapter will address social media, however, to have a firm understanding of what social media marketing is, you must first understand what digital media in general is so you can relate the two effectively.

Digital Media is simply a combination of technology and content.

Any tool or electronic device that is used to distribute information and communicate digitally to more people at once than we could with our own voice and body can be classified as digital media.

In the context of business and specifically marketing, the core relevance of today's digital media, hinges on two key elements: i**nteractivity and group formation.**

- **Interactivity**: This has been made possible by the combination of computers, software, and networks. Unlike traditional or regular media, the digital media was developed to be bi-directional and interactive. Assuming I place an advert about a product or service in the newspaper or on radio, I will only be distributing information about the brand which makes mode of communication one-directional. However, if I place the same ad on a digital platform e.g. YouTube I am likely to have instant feedback from likes and comments thus making my communication mode bi-directional.
- **Group Formation**: Today's digital media harnesses the power of complex software designs together with its networking features enabling users to form groups. Individuals can use these digital media to create social networks which becomes valuable markets for brand promotion.

Society and business are now able to take advantage of the benefits and capabilities related to interactivity and group formation offered by the power of digital media to effectively promote their agenda.

The Three Types of Digital Media

To gain understanding of the social media landscape, it's important to be aware of the different forms of digital media. Digital media can be divided into three main categories:

1. earned
2. owned
3. paid.

This quick video **The Difference Between Paid, Owned and Earned Media**, provides an overview of the three types of media.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=644#oembed-1

- **PAID** media, as the name suggests, is **media that you pay for**. The goal of this media is to drive traffic to your owned media.
- **OWNED** media, again as the name suggests, is **media that you control**. This refers to your website, social media channels, and any other place where you are directly responsible for the message.
- **EARNED** media, which is considered to be **the best type of media**. This is media that **your fans or followers are generating on your behalf**. It could be as simple as liking, sharing or retweeting a post, or as impactful as drafting a post about your brand using their own channels.

12.12 FOCUS ON SOCIAL MEDIA MARKETING

Learning Objectives

- Understand the fundamental concepts behind social media
- Understand the rules of engagement in social media and what the benefits are.

Introduction

The term Social Media Marketing (SMM) refers to Internet marketing that utilises social networking sites, also known as channels *(Facebook, X, YouTube, etc.)*, as marketing tools by companies to expose their products and services and interact with both their current and potential customers.

Social media is sometimes referred to as consumer-generated media (CGM), participatory media, and new media. In fact, comparing social media to traditional media is probably the most useful way of defining what exactly this means.

Most simply put, social media are media *(from written to visual to audio to audiovisual)* that are designed to be shared. Sharing means that it is easy to comment on, easy to send, and that there are no high costs associated with viewing the media. Due to the interconnected nature of the Internet, sharing, commenting, and viewing can all be tracked and measured.

The world of social media is about collaboration, generating content, sharing, and, above all, connecting.

Social Networking

The term "social networking" refers to the formation of online social networks for communities of people. The communities are comprised of people who share interests and activities, or are interested in exploring the interests and activities of others.

Social networking sites, also known as social media channels, are dominated by the major players in the industry: Facebook, X, Instagram, and YouTube. These social networks or channels together are what is also known as social media.

Social Media as a Marketing Tool

Social networks are free for their members but tend to rely on advertising for their revenue. Due to demographic information collected by social networks, advertisers can target their advertisements to a specific audience.

Social media has changed the world we market in and can be used as an integral part of an online marketing campaign. Social media are all about the ways that we create, connect, and share online.

Companies must, however, note that simply because it is a social network does not mean it is the right place for every company to market itself. As a good marketer, you must first determine if your target market is using the social network, and then assess whether it is the right platform for marketing to them.

Marketers can use social networks to understand how users perceive or interact with their brand and open up new avenues of communication with them. For example, if you are marketing a bar, look to see how many people are using a social network to organise events at your bar. Find a way of rewarding those who are bringing you extra customers.

Social networks are also an avenue for members to voice their frustrations and annoyances, and marketers need to closely monitor these feeds to watch for problems.

Social Media and Marketing: Rules of Engagement

Social media imply a democratisation of information and require authenticity and openness from those who would deliberately use them for marketing. Relying on the Internet means that good stories as well as bad stories spread and stick around.

Although they are engaging publicly with a wide audience, marketers need to remember that they are communicating with individuals. While marketers should engage in the conversation and can lead it, they cannot control it.

1. Marketing to Content Consumers

Social media enables anyone to have a voice, and the same tools available to individuals are also accessible to companies. Company blogs enable a brand to establish a personality and engage with its target market. Entertainment created and spread via social media increases brand touchpoints. Using the same channels that are available to your consumer aids in understanding the consumer and even the level of conversation.

When using social media to reach out to content consumers, go to where your consumers are. Your users dictate the media used.

For example, a nightclub for students can create a Facebook group to advertise its weekly specials and interact with fans, while Land Rover enthusiasts would probably be more comfortable with a forum.

In all interactions, marketing messages must be clearly labelled as such, with a disclaimer added if necessary. Trying to hide them as something else will only decrease authenticity.

2. Marketing to Content Sharers

Content sharers are content consumers who also pass your message on, whether by using chat or e-mail, by sharing a link on a blog, or by submitting your content to a bookmarking or aggregating service. They are a crucial link in the chain that passes your message around. Make it as easy as possible for sharers to share by using chicklets and unique and easy-to-read URLs.

3. Advertising on Social Media Platforms

While marketers can use the tools of social media to convey their message, the user characteristics that define a social

media website are also important. Social media enables users to express themselves, allowing demographic information to be compiled for more effective and targeted advertising. This presents many opportunities for targeting advertising and for finding creative ways to reach an advertisement-fatigued demographic.

The Benefits of Social Media to Marketers

There are numerous benefits for companies and marketers in leveraging the services that social media sites offer. The following are just some of these benefits:

1. People are finding it easier to switch off or ignore traditional advertising, particularly through traditional media environments such as television or radio. Social media gives brands the opportunity to interact with customers through targeted communications that customers can choose to engage with on their terms. For example, a consumer may visit a branded YouTube channel as opposed to deliberately ignoring advertisement breaks on television.
2. Social media's potential to go viral is one of its greatest benefits; if users like the content, then they will share it with their communities.
3. Social media allows you to create an online community for your brand and its supporters.
4. Social media can tie in nicely with any of your other online marketing tactics; a holistic e-marketing strategy is always the best strategy.
5. Social media allows you to engage with an online community and allows you to connect your brand to the appropriate audience.
6. Social media has created a forum for brand evangelists. Companies should both embrace and monitor this, as users with negative opinions about your brand have access to the same forum.
7. The various platforms allow you to access a community with similar interests to your own, that is, networking without borders.
8. The numerous interactions allow you to garner feedback from your communities.
9. Feedback from social media sites helps drive both future business and marketing strategies.
10. The range of media enables you to learn more about your audience's likes, dislikes, behaviour, and so on. Never before has this much information been available to marketers; market research just got a whole lot cheaper.
11. Niche targeting just got a whole lot easier.

There are huge risks as well as opportunities. Social media facilitates a two-way conversation between customers and companies. This necessitates that the company shift its approach from "deploy and watch" to one of constant involvement with the audience.

Social Media and the Changing Media Landscape

To keep up with their audiences, traditional media have had to adapt. This has changed the way that they publish, both online and off, as well as how they can sell advertising.

For example, many newspapers now publish their content online, in addition to their print publications. Online, they can allow for instant commentary on their articles. It allows an instant snapshot of what their readers think,

which can then be used to make editorial decisions. Print stories can be supplemented online with video, and many news organisations have embraced this.

As mentioned, television advertisements can be placed online for free via channels such as YouTube. This opens advertisements to a new audience and allows for advertisements that can be created without the restrictions of television. Advertisements can be extended, and now, additional footage can become as important as the original. Quality advertisements are voluntarily and deliberately viewed, as opposed to deliberately ignored.

Check out the Links Below to Learn About Some Canadian Companies Using Social Media

1. Canadian social media usage on statcounter.com
2. 5 Canadian Companies That Excel at Social Media Marketing (2019) By QuickBooks on Intuit.

CHAPTER 13: ETHICS AND SOCIAL RESPONSIBILITY

Learning Objectives

- Understand the importance of ethics and social responsibility
- Describe common ethical marketing issues
- Define ethics in the context of marketing
- Identify common ethical issues and their impact on individuals and organizations
- Identify ethical issues introduced through new marketing channels
- Explain the role of social responsibility in marketing

13.1 WHY IT MATTERS: ETHICS AND SOCIAL RESPONSIBILITY

Why learn about ethics?

Generally speaking, students believe that there are two primary reasons to act ethically:

- Acting ethically is the right thing to do from a moral perspective;
- If you act unethically, then you might get caught and be punished.

Businesses need to make decisions in order to act. How are those decisions guided? Laws or regulations are the constraints and considerations that define what a business can do (is allowed to do) and must do (by law) to operate within an industry, geography or jurisdiction. Since businesse have legal and ethical considerations, then so do marketers within those businesss. Business ethics are what companies and individuals within them should do. Ethics and laws are linked within a society by creating standards and rules that affect many stakeholders. Business ethics is the social obligations a business has to its stakeholders including; employees, customers, institutions, shareholders, and communities. Under the umbrella of business ethics, Corporate Social Responsibility (CSR) began to emerge in the 1950s and took hold as a brand consideration and management concept in the 1970s with a narrow focus on what a company's social obligations are. It was difficult to determine if they followed through as CSR is self-regulated. CSR has evolved to Environmental Social Governance (ESG) which holds companies to account for not just their intentions but measures their impact. ESG has direct implications on a company's access to capital as well as brand value.

In most cases strong ethical behavior leads to strong business results. Behaving ethically is actually good business. Let's look at two different auto companies whose track records on ethical behavior have had very different outcomes.

Tesla and Social Responsibility

Tesla, Inc. was founded in 2003 by a group of engineers who wanted to prove that electric cars could be better than gasoline-powered cars. They hoped to build cars that wouldn't require the tradeoffs in power and comfort of electric cars in the past. The founders pledged that each new generation of cars would be increasingly affordable, helping the company work toward its mission: "to accelerate the world's transition to sustainable energy."[1]

In order to design and build luxury electric cars, Tesla invented a number of new technologies that it patented in order to protect its competitive advantage. In June 2014 the company announced that it was releasing access to all of its patents, making its technological advances open to competitors and inventors. In the announcement, com-

1. "About Tesla," Tesla, accessed September 23, 2019, https://www.tesla.com/about

pany CEO Elon Musk said, "Tesla Motors was created to accelerate the advent of sustainable transport. If we clear a path to the creation of compelling electric vehicles, but then lay intellectual property land mines behind us to inhibit others, we are acting in a manner contrary to that goal. Tesla will not initiate patent lawsuits against anyone who, in good faith, wants to use our technology."[2]

Tesla has a mission with an emphasis on social responsibility; it strives to develop products that have both a societal and economic benefit. Industry analysts and consumers alike see this as a distinct advantage in the marketplace. Investment analyst Seeking Alpha explains:

> *Companies like Toyota Motor and Honda are already pushing for gas-less cars and more and more efficiency from their cars. Tesla is not single-handedly pushing this, but it is part of the overall push to improve one of the most important aspects of our country—how we envision the car. Yet, the company extends beyond this—challenging how we vision luxury, how we understand how to build a car, and what the future electric grid could look like.*[3]

Volkswagen and Ethical Behavior

The car company Volkswagen (which is part of the larger Volkswagen Group) does not have a formal mission statement, but its goal is "to offer attractive, safe, and environmentally sound vehicles that can compete in an increasingly tough market and set world standards in their respective class."[4]

In September 2015, the U.S. Environmental Protection Agency announced that Volkswagen had installed special software in its cars to manipulate emissions levels (making it appear that the cars are less polluting than they are). A week later Volkswagen disclosed that 11 million diesel vehicles contained the devices, and CEO Martin Winterkorn resigned. The price of Volkswagen stock plunged—losing 30 percent of its value overnight—and the company scrambled to understand what had happened and control the damage to its reputation.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=220#oembed-1

In the months following the discovery of the deceptive devices, investigators identified a team of Volkswagen employees who had hatched the plan and implemented it over a number of years. An internal evaluation identified a "culture of tolerance" for rule-breaking at the company. It also came to light that Volkswagen's emphasis on "results at any cost" had contributed to the breach in ethical standards. Industry experts believe that the company's violation of consumers' trust will be exceedingly difficult to repair and that it may take years to rebuild the Volkswagen brand.

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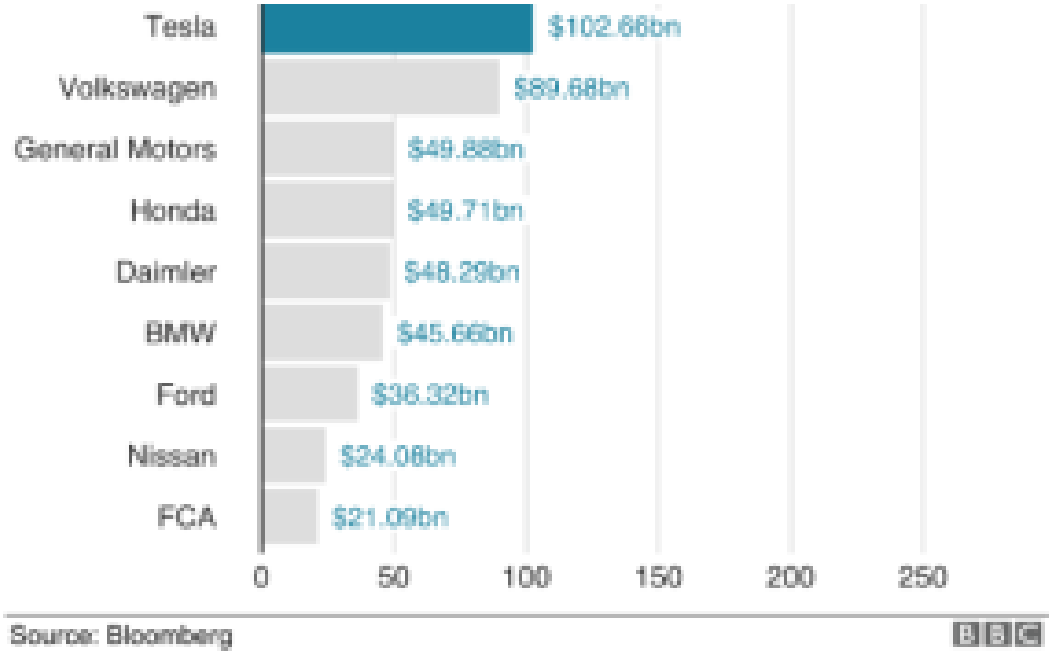
2. Musk, Elon. "All Our Patent Are Belong To You," Tesla, June 12, 2014, https://www.tesla.com/blog/all-our-patent-are-belong-you.

3. "Tesla: Social Responsibility Scorecard Shows Strengths And Weaknesses," Seeking Alpha, Jan 6, 2015, https://seekingalpha.com/article/2801365-tesla-social-responsibility-scorecard-shows-strengths-and-weaknesses.

4. Jurevicius, Ovidijus. "Mission statement of Volkswagen," Strategic Management Insight, September 14, 2013, https://www.strategicmanagementinsight.com/mission-statements/volkswagen-mission-statement.html.

Good Guys Can Finish First

In 2020, Tesla was the largest automobile company in the world, with a value larger than GM, Ford and FIAT and combined with a side hustle on some intergalactic travel.[5]



Tesla overtakes Volkswagen in January 2020 and by July 2020 is the largest automaker in the World. Source: Bloomberg

5. Dey, Esha. "Tesla Adds 14 Billion A day To Valuation As Big Money Dives In," Bloomberg. July 6, 2020, https://www.bloomberg.com/news/articles/2020-07-06/tesla-adds-14-billion-a-day-to-valuation-as-big-money-dives-in

13.2 ETHICAL MARKETING ISSUES

Learning Objectives

Describe the types of ethical issues that marketing must address

We will begin by introducing definitions to clarify ethical terms and then turn to the issues that marketing professionals most often encounter.

Business ethics promote conduct based on integrity and trust, but more complex issues include accommodating diversity, privacy and governance that are consistent with the organization's core values. According to the 2021 Global Business Ethics Survey, [1] perceived employee pressure to violate their organization's ethics was at the highest level since 2000.

Ethical challenges in marketing are not new. In 1977, 70% of managers were concerned about marketing issues. Common worries remain but the priorities and complexities have changed. The top three ethical issues in 1977 were bribes, price discrimination and unfair pricing, and dishonest advertising. In 1977, digital marketing did not exist. [2] With e-marketing creating real-time feedback and interaction, professionals today face additional questions including privacy, security and storage, anti-spam, and most recently content management with the tension between hate and free speech, online harassment and bullying.

Wish to learn more?

Listen to podcast

Listen to the CBC podcast Can an ad boycott fix Facebook's hate speech problem?

Facebook is facing a growing advertising crisis with the boycott of over 800 compa-

1. ECI. (2021). The State of Ethics & Compliance In The Workplace: A Look at Global Trends: 2021 global business ethics survey. https://43wli92bfqd835mbif2ms9qz-wpengine.netdna-ssl.com/wp-content/uploads/2019-Global-Business-Ethics-Survey-Report.pdf

2. Brenner, S. N, & Molander, E. A. (1977). "Is the Ethics of Business Changing" *Harvard Business Review* 55: 57-71

nies. Do Facebook and Google have too much power and know too much about us? Do we need to create laws to regulate Facebook?[3]

Today with digital marketing, technology, and globalization, the list of ethical marketing demands has evolved. The American Marketing Associate Statement of Ethics attempts to create guidelines to follow but the reality is that ethical practices often lag behaviors and rules.

In this section, you'll learn more about these issues and the challenges in overcoming them. As with ethics in general, the line between ethical behavior and unethical behavior can be very fine indeed.

Learning Activities

- Reading: Defining Ethics
- Reading: Common Ethical Issues in Marketing
- Reading: New Challenges in Marketing Ethics
- Reading: Corporate Social Responsibility

3. CBC. (2020, July 5). *Can an ad boycott fix Facebook's hate speech problem?* Frontburner. https://www.cbc.ca/player/play/1760602691910

Ethics is the set of moral principles or values that guides behavior. There is a general recognition that many, if not most, business decisions involve some ethical judgment.

Each party in a marketing transaction brings a set of expectations regarding how the business relationship will exist and how transactions should be conducted. For example, when you as a consumer wish to purchase something from a retailer, you bring the following expectations about the transaction: (a) you want to be treated fairly by the salesperson, (b) you want to pay a reasonable price, (c) you want the product to be available as advertised and in the indicated condition, and (d) you want it to perform as promised. Unfortunately, your expectations might not be in agreement with those of the retailer. The retail salesperson may not "have time for you," or the retailer's notion of a "reasonable" price may be higher than yours, or the advertising for the product may be misleading. These differences in expectations can lead to ethical questions that are sometimes difficult to analyze.

American Marketing Association Code of Condct

To provide greater clarity for marketing professionals, the American Marketing Association (AMA) has created the: AMA Code of Conduct. There are sections that address ethics, conduct and behavior of marketers, and procedures for reporting behavior that does not meet the standards of the AMA Code of Conduct..

It's helpful to review the document in order to understand the scope of issues that marketing professionals face. It is important to understand what ethics are based upon. *Norms* are established standards of conduct that are expected and maintained by society and/or professional organizations. Norms may be fluid and change and values are more stable. *Values* represent the collective conception of what communities find desirable, important, and morally proper. Values also serve as the criteria for evaluating our own personal actions and the actions of others. They are often called beliefs. [1] [2]

The exchange process between an organization and a customer is based on a relationship of **trust**. The Code of Conduct and Statement of Ethics aim to protect that **trust.**

1. *Social Norms* (2011, March 01). Stanford Encyclopedia of Philosophy. https://plato.stanford.edu/entries/social-norms/

2. *What are social values?* (n.d.). Environics Research. https://environicsresearch.com/what-are-social-values/

Let's start by taking at look at a hypothetical business situation:

Examples

You're a member of the marketing team for a B2B company that sells software to restaurants. Your product is a point-of-sale system that manages orders, menus, and staff scheduling. While it generally works well, there are sometimes glitches that cause it to drop orders, and the system goes down more often than you would like. You are marketing the system to a major restaurant chain, and they've asked for a list of references from current customers. The marketing and sales teams sit around a table reviewing the current customer list trying to decide which references to provide. First, the team screens out those who have complained most vocally about the glitches with the product. There is one customer who told his account manager, "These things happen with all systems," so the team thinks he would be a good reference. There's also a new customer who started using the system recently and hasn't yet experienced the system downtime that other customers have. The team selects that restaurant, as well, and prepares to send the two names to the sales prospect.

Question

Is that ethical? Is it fair and honest to cherry-pick the customer references, selecting only the ones that are unlikely to share negative experiences about your product? To be sure, there's a range of customer feedback, and not all of it is positive. Are you expected to give a full picture of customers' experience—warts and all—so the restaurant chain will know exactly what it's buying?

Answer

In general, when prospective customers request customer references, they expect to receive favorable ones, and doing so is not a violation of their trust. It's a lot like a prospective employer's request for a job candidate's work references. When you're marketing yourself for a new job, you name the references who are most likely to report your talents and strengths—you don't include a crabby boss who never had good things to say about anyone.

The question becomes more challenging when the customer relationship is more complicated. In every case—even the simplest—it's a judgment call. Suppose your company compensates customers for providing references. A company might give some small thank-you gift to acknowledge that taking reference calls requires time, and that the company appreciates the client's support. Is that unethical? Possibly. On one hand, it's reasonable and desirable to express your appreciation to the customer, since part of maintaining the customer relationship is letting customers know that you value them and their time. On the other hand, there's a risk, especially if the gift is large, that the customer might be influenced or even induced to give your company or product a favorable review. There is a point where the compensation begins to distort the customer dialogue and relationship, and then it's clearly unethical—and if you're *inducing* a customer to alter their behavior in exchange for a gift, it's bribery.

Marketing professionals face regularly face questions of this kind. Where the organization appreciates a close partnership with a client, a thank-you gift may well be appropriate. The challenge is to choose one of the right sizes that expresses appreciation but doesn't compromise the integrity of the client or the marketing organization.

Difficult Ethical Issues Marketing Professionals Face

Below is a list that shows how marketing professionals responded to a survey on the most difficult ethical issues they faced in 1985. [1] Today, with over 3,800 digital marketing tools (Martech) including artificial intelligence and big data analytics marketers face digital dilemmas. [2] In the '80s, confidentiality and data ranked at the bottom of concerns.

Concerns in 1985	Examples	Concerns in 2019	Examples
Bribery	Gifts from outside vendors, payment of questionable commissions,	Deception	Misinformation and disinformation, False and influencer (disguised) advertising, pricing
Fairness	Inducing customers to use services not needed	Client Data, Storage and Privacy	Ensure consumer info is not hacked, Identity theft
Honesty	Misrepresenting services and exaggerating capabilities	Product Safety and Sustainability	Greenwashing, Advertising to Children, Food labeling, Advertorials
Pricing	Differential pricing	Market Research	Confidentiality, Deceptive practices, disclosure, Protection of customer data

Notice that many of the responses include watchwords like "questionable" or "exaggerated." In marketing, the greatest challenge is to influence the behavior of the target customer (by getting them to buy) without violating the customer's trust or acting unethically. With the rise of social media, customers are in a much better position to share frank evaluations of products and services publicly, and this gives marketers a new means of capturing unbiased customer feedback. [3]

Take the challenge. How ethical are you?

The formidable research conducted in 1977 still remains a popular management case study. Why not explore how you may act in these ethical dilemmas? Read the case studies in the short article How Ethical Are You?[4]

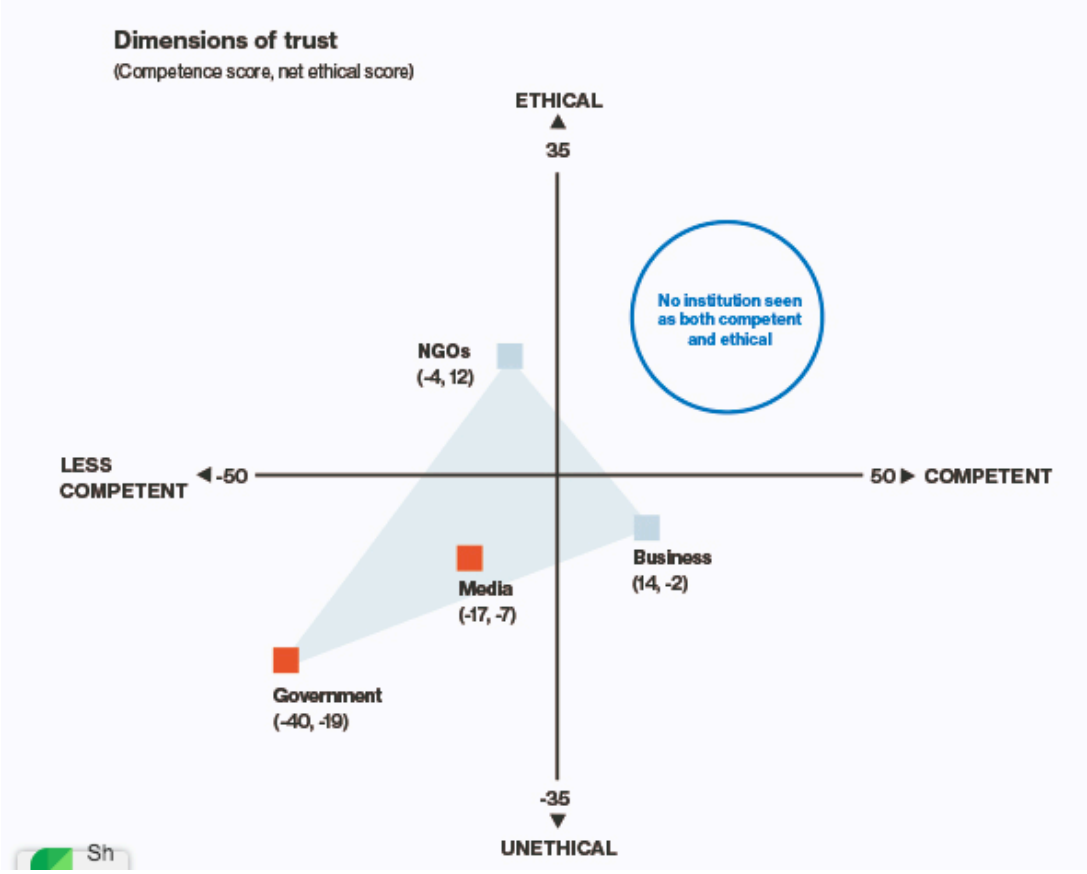
1. Lawrence B. Chonko and Shelby D. Hunt, "Ethics and Marketing Management: An Empirical Examination," *Journal of Business Research*, Vol. 13, 1985, pp. 339–359.

2. Boote, T. (2017, January 17). *What Have Ethics Got to do with Digital Marketing?* Digital Marketing Magazine http://digitalmarketing-magazine.co.uk/digital-marketing-features/what-have-ethics-got-to-do-with-digital-marketing

3. O'Barr, W. (2007). *Ethics and Advertising.* Project Muse. https://muse.jhu.edu/article/221968

4. Ovans, A. (2012, November 12). *How Ethical Are You?* Harvard Business Review. https://hbr.org/2012/11/how-ethical-are-you

New marketing channels create opportunities for new tactics, but sometimes these developments bring new ethical challenges. Eventually, society may establish what is acceptable behavior and what is not, but that process takes time. The 2020 Edelman Trust Barometer Study[1] found that customers increasingly expect brands to "place customers ahead of profits and have ethical business practices," and Interbrand's 2018 brand study noted that successful businesses are those who are willing "to simultaneously look through a microscope and a telescope, to have the courage to intercept the future, not just flow with it, and, to take decisive action that makes a real impact."



Edelman 2020 Trust Barometer shows where companies are ranked based on competency and ethics

Societal expectations are changing at a faster rate due to technology including our use of social media platforms. Below are two case studies that show the evolution within the last seven years ignited by tragedies and how corporations respond.

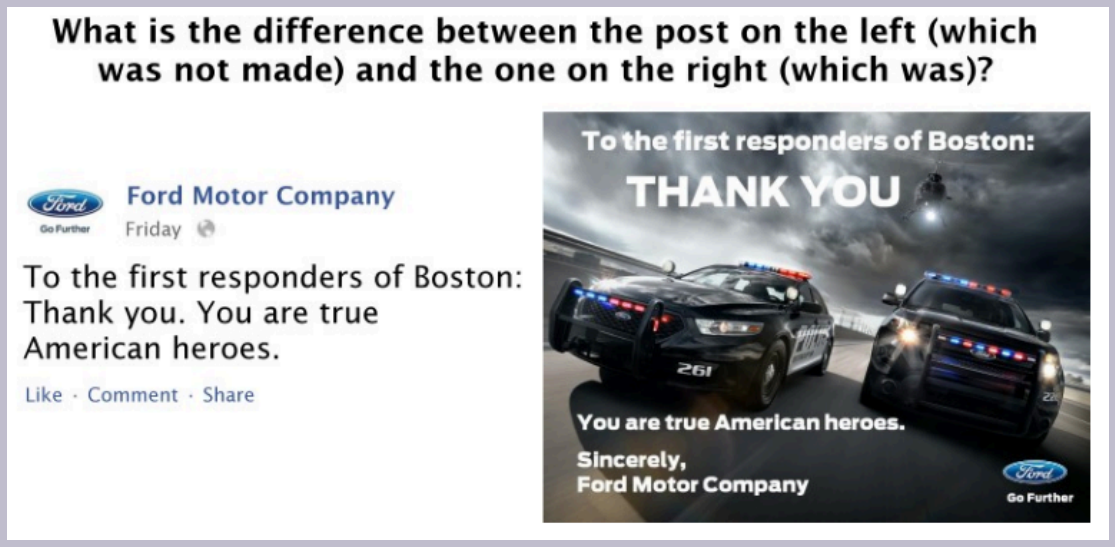
1. *2020 Edelman Trust Barometer.* (2020, January 19). Edelman. https://www.edelman.com/trustbarometer

Ethics in Social Media During Week of Boston Marathon 2013 Tragedy

In the following blog post, marketer Augie Ray explains growing sensitivities around the appropriate uses of social media, and shares his guidance to marketers who are seeking to create a trusted relationship with their customers and prospects.

Let's examine two brands' actions during the frightening events in Boston. NBC Bay Area posted a photo of a young bombing victim and implored people to "'Like' this to wish him a continued speedy recovery." This desperate attempt to trade on people's feelings for a young victim of the bombing in order to receive a bit of EdgeRank building engagement is horrifyingly unethical, in my book. (And if you do not agree, then please tell me how "liking" an NBC post lends support to or otherwise helps this poor hospitalized child.)

Ford, a brand I praised for authenticity, waded into dubious water with a Facebook status update following the capture of the second bombing suspect. The brand said, "To the first responders of Boston: Thank you. You are true American heroes."



Ford Social Media Posts During Boston Bomber Tragedy in 2013

Nothing wrong with that—in fact, I love that a brand like Ford feels it can express sincere appreciation for the sacrifices of those who serve. The problem was that Ford didn't post that as text but included it within a beauty shot of their products, complete with the Ford logo and tagline. Not everyone will agree, but I feel that Ford's use of brand imagery not only reduced the sincerity of the message but demonstrated questionable ethics. Before you disagree, I would ask you to view the two status updates in the image above—one Ford could have posted and the other it actually did—and consider three questions:

1. Which is a more authentic expression of appreciation to people who sacrificed their safety to protect us?
2. What does the product and brand imagery of the post on the right add (if anything) to the sincer-

ity of the gratitude compared to the simple text version?
3. Which version more clearly puts the focus on the heroes in Boston?

Issues of ethics are difficult to discuss. They often are not clear cut, and while it is easy to see when a company crosses the line with both feet (as did NBC Bay Area), it can tough to discern as brands tow the gray line (as did Ford, in my opinion).

It is even tougher to see when you yourself cross ethical lines. If your boss wants to know why your brand has half a million customers but only 25,000 fans on Facebook, sweepstakes to accumulate fans may not seem unethical. Your perspective may change, however, if you put yourself on the other side of this equation; if you do not want to see your friends becoming shills for brands in return for freebies and giveaways, then your brand should not follow this path. It is unethical to treat your own customers in a way you would not appreciate from the brands you buy or the people you know. (Fifty years ago, David Ogilvy , the father of modern advertising, expressed the same sentiment when he said, "Never write an advertisement which you wouldn't want your family to read. You wouldn't tell lies to your own wife. Don't tell them to mine.")

I think perhaps it is time to reset our moral compasses, not to save our souls but to improve business results. Study after study demonstrates that consumers want something more from brands than silly images and memes; they want ethical behaviors and communications. I'd like to believe this is always the case in every business situation, but when it comes to social media marketing, the ethical path also happens to be the best one for enhancing brands and business results.[2]

Facebook's Ethical Dilemma of Engagement Vs. Enragement in 2020

With 2.6 Billion users, bigger than a single country on the planet, and a virtual monopoly as a broadcaster or 'public square' social media platform, the publicly traded social media giant, Facebook is under renewed scrutiny. International protests for social justice were elevated by the brutal murder of George Floyd in Minneapolis, Minnesota due in large part to a video posted on Facebook by a brave teenager who recorded the act of police brutality.

Mark Zuckerberg, CEO of Facebook, who owns 70% of the shares of the $700 Billion company has been challenged on numerous occasions by various governments and activists to better monitor the hate speech, violent language and misinformation posted on the platform with no consequences. When sig-

2. Ray, A. (2012, December 27). *Miracle on Social Media Street*. Experience: The Blog http://www.experiencetheblog.com/2012/12/miracle-on-social-media-street.html

nificant events occur, many people across the globe use Facebook to organize, articulate, celebrate, share and sometimes mourn. To date, Facebook has been protected by a very unique U.S. government law that allows free speech including hate speech, and has avoided regulation. This is very important to Facebook shareholders and Zuckerberg, as there are no limitations and as users grow, so do the advertising revenues and profits.

In June 2020, the NAACP, along with many U.S. activists groups seeking social justice for minorities including George Floyd, organized to challenge large brand advertisers to boycott Facebook and #StopHateforProfit. Companies have responded including the world's largest advertiser, Proctor and Gamble. Stop Hate for Profit Campaign to Boycott Facebook in 2020 .[3]

A recent July 2020 internal audit into Facebook's practices, that was requested by the media giant itself, confirmed regulators' and activists' concerns. The audit found "found the company has been slow to adopt changes to protect users from discrimination and harassment." Findings of Facebook Audit confirm poor practices for honest and non-violent content.[4]

Facebook has not been responsive to previous requests to materially change their content monitoring even after their own employees protested.[5]

It remains to be seen if they will respond in a genuine way and change their business model but clearly public expectations including the world's largest companies have been activated.

3. Clifford, T. (2020, July 6). *NAACP CEO on 'Stop Hate for Profit' campaign: Facebook should be useful fro targeting ads, not hate.* CNBC. https://www.cnbc.com/2020/07/06/naacp-ceo-facebook-should-be-useful-for-targeting-ads-not-hate.html

4. Fussell, S. (2020, July 8). *An Audit Slams Facebook as a Home for Misinformation and Hate*. Wired. https://www.wired.com/story/audit-slams-facebook-home-misinformation-hate/

5. Frenkel, S., Isaac, M., Kang, C., Dance, G. J. (2020, June 01). *Facebook Employees Stage Virtual Walkout to Protest Trump Posts.* The New York Time. https://www.nytimes.com/2020/06/01/technology/facebook-employee-protest-trump.html

So far we have focused on ethical dilemmas in terms of risk. If a company acts unethically, it risks damaging its reputation and its customers' trust—worse, it can face lawsuits and criminal prosecution. In this section, we'll discuss one of the ways companies attempt to get out in front of such risks by taking a proactive stance on ethics instead. As you saw with Tesla, companies that place "doing the right thing" at the centre of their corporate mission and strategy often see a competitive advantage. Increasingly, they're finding that good corporate citizenship not only benefits customers and communities but is good business, too.

Corporate social responsibility is the ethical behaviour of a company toward society. It means acting responsibly toward the stakeholders—not just the shareholders—who have a legitimate interest in the business.

Shareholders own a portion or share of a business. Stakeholders do not own the business, but they have some stake or interest in it because they are affected by the business's strategies and tactics. Examples of stakeholders are employees, suppliers, business partners, and the community in which the business operates.

Below are a few examples of businesses behaving ethically in ways that have a positive impact on their stakeholders.

IBM Canada investing in local CSR Programs

IBM has a large presence in Bedford, Nova Scotia and is a local employer dedicated to supporting young professionals. IBM Service Corp is a program that offers employees opportunities to volunteer locally and internationally for up to four weeks. Offering a range of volunteer opportunities aligns with current employee expectations. "According to a 2019 study from charity.org, 86 per cent of surveyed employees expect their employers to provide opportunities to engage in the community, while 87 per cent of surveyed employees expect employers to support causes and issues that matter to them." [1]

Anheuser-Busch Wants Customers to Drink Responsibly

In January 2014, Anheuser-Busch ran a Super Bowl ad featuring a cute puppy and the famous Budweiser Clydesdale horses. The ad plays on romance and nostalgia to remind viewers of the brand's history (and to sell more beer).

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=235#oembed-1

In September 2014, the company brought back the puppy, this time to promote responsible drinking:

1. Dunne, M. (2020, March 04). *IBM Canada investing in local CSR programs*. Benefits Canada. https://www.benefitscanada.com/news/ibm-canada-investing-in-local-csr-programs-143211

You can view the transcript for "Someone Waits For You At Home, DON'T DRINK AND DRIVE | Budweiser Ads". (opens in new window)

On its website, Anheiser-Busch lists a number of programs it has launched to reduce drunk driving. These are marketing programs that were developed to reduce the risk for consumers using the company's products.

> *Anheuser-Busch is opposed to drunk driving and we believe it is 100 percent preventable. According to the U.S. Department of Transportation, drunk-driving fatalities have decreased 53 percent since 1982 to record lows, but we recognize there is still work to be done. As part of our effort to prevent drunk driving, we have key initiatives like the Budweiser Designate a Driver campaign and Bud Light safe ride home programs, including Bud Light Alert Cab and Bud Light Tow to Go.*

The company is actively promoting safety for its customers and their communities.

Haagen-Dazs Cares about Its Tiniest Suppliers

Recently, the ice-cream company Haagen-Daz initiated a campaign to raise awareness about the threats to honey bees, which are rapidly disappearing and are vital to the global food chain (and many of the ingredients in flavoured ice cream). The company started a honeybee microsite and is donating a portion of the proceeds from its honeybee brand to bee research. In November 2014, it raised an additional $7,000 for research during a two-day Twitter campaign (#HelpHoneyBees hashtag).[2]

Power of the People

Organisations have become more accountable through the evolution of CSR to ESG in part due to external influences, including stakeholder activism. Greta Thunberg left school and went on a "strike" to voice her concerns to institutions through a social media campaign #FridaysForFuture. Her actions took place during the debate between businesses and the government on how to create a carbon offset to reduce fossil fuel emissions, which is especially important in developing countries. [3]

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2. Lasica, J. D. (2010, April 22). *4 examples of corporate social responsibility done right*. Socialbrite. http://www.socialbrite.org/2010/04/22/4-examples-of-corporate-social-responsibility-done-right/

3. Woodward, A. (2020, January 03). *Greta Thunberg turns 17 today. Here's how she started a global climate movement in just 18 months.* Insider. https://www.businessinsider.com/greta-thunberg-bio-climate-change-activist-2019-9#she-has-offered-a-moral-clarion-call-to-those-who-are-willing-to-act-and-hurled-shame-on-those-who-are-not-time-magazine-wrote-of-thunberg-last-month-1

Product liability is the legal liability a manufacturer or importer/exporter incurs for producing or selling a faulty product.

There is not a single federal law or code that covers all product liability. In general, product liability laws typically come about as a result of civil court cases being prosecuted through class action lawsuits. The courts are increasingly holding sellers responsible for the safety of their products. An example is the 2014 Canadian class action against GM's ignition switch.

A manufacturer or supplier of a defective product may be liable to a consumer or other party injured by the product on the basis of either contract or tort law principles. Where a contractual relationship exists between the manufacturer and the customer, liability will normally be founded on contract law principles. There is NO strict liability for manufacturers in Canada.

Tort liability for damages or injuries caused by a defective or dangerous product is based on the claim of negligence. In Canada, there are three main types of negligence establishing tort liability for damages or injuries caused by defective products:

- Negligent manufacture (how they made it)
- Negligent design (how they designed it)
- Negligent failure to warn (how they marketed it)

Types of Product Defects

Three types of product defects give rise to product liability: *design defects*, *manufacturing defects*, and *marketing defects*.

Design Defects

Design defects exist before the product is manufactured. There is something in the design of the product that is inherently unsafe, regardless of how well it is manufactured. Since "product" is one of the primary elements of the marketing mix, the marketer bears responsibility for ensuring that the design results in a product that is safe and that the product will fulfill the promises of the other aspects of the marketing mix such as promotional commitments.

Let's look at a current example of a product design going awry. One of the hottest holiday gift items in 2015 is the hoverboard self-balancing scooter. The premium models often cost more than $1,000, but several companies have created less expensive versions by using lower-cost board components. One expensive component that has been downgraded in the cheaper models is the rechargeable lithium-ion battery. Many less expensive boards use a lower-quality (and lower-priced) mass-produced battery cell. These cheaper batteries are more likely to have quality issues that may cause them to break and burst into flame when repeatedly bumped, a common occurrence during normal scooter use.

Manufacturing Defects

Manufacturing defects occur while a product is being constructed, produced, or assembled. Specifically, when a

product departs from its intended design, even though all possible care was exercised in the preparation and marketing of the product. The manufacturer may be very careful with the design, material selection, development of the manufacturing process, and quality assurance guidelines. Nevertheless, if a poorly manufactured product leaves the manufacturer's facility and causes injury when used for any of its intended purposes, then there is a defect in manufacturing.

It might seem that manufacturing defects occur only in product sales and not in the service industry, but there's a very well-known case in this category: the McDonald's coffee case.

On February 27, 1992, a 79-year-old woman named Stella Liebeck visited McDonald's with her grandson, Chris. They got the coffee, and Chris pulled into a parking space so that Stella could add cream and sugar. Since the car had a curved dash and lacked cup holders, Stella put the cup between her knees and removed the lid. When she did, the cup fell backwards, burning her lower body. Liebeck was taken to the hospital, where it was discovered that she had third-degree burns on 6 per cent of her body and other burns on 16 per cent of her body. She required multiple skin grafts and was in the hospital for eight days. Liebeck spent two years recovering from the injury, lost 20 per cent of her body weight after the accident, and was left permanently scarred by the ordeal.

Liebeck wrote a letter to McDonald's asking them to pay her medical bills, which totalled around $10,500 in 1992 (approximately $16,110 today). The company offered her $800. Liebeck and McDonald's exchanged several more letters, but the company refused to increase their $800 offer, so Liebeck hired a law firm.

Liebeck's lawyers conducted a study of coffee temperatures. They discovered that coffee brewed at home is usually served at 57–62°C and coffee served at most fast-food restaurants is in the 71–79°C range. McDonald's, however, served its coffee at 88°C, which can cause third-degree burns on human skin after two to seven seconds of contact. No safety study of any kind was undertaken by either McDonald's or the consultant who recommended the hotter temperature.

Moreover, Liebeck's lawyers also discovered more than seven hundred other burn claims—many of them for third-degree burns—from McDonald's customers between February 1983 and March 1992. In court, McDonald's quality-control manager, Christopher Appleton, testified that McDonald's served around 20 million cups of coffee a year and that seven hundred incidents during nine years were statistically insignificant. While this was factually accurate, the U.S. jury did not appreciate hearing that McDonald's considered seven hundred burned customers to be insignificant.

The U.S. jury found in Liebeck's favour. They awarded her $200,000 in compensatory damages, but that amount was later reduced to $160,000 because they felt that the spill was 20 per cent Liebeck's fault. The jury made headlines when it came to the punitive damages, however, which they settled at $2.7 million. The jurors defended the amount, saying that it was to punish the company for its callous attitude toward Ms. Liebeck and the 700+ other McDonald's customers who had suffered burns. Although it sounds like a lot, $2.7 million represented only two days' worth of McDonald's coffee sales, and the jurors felt that was a fair amount.

The judge agreed, accusing McDonald's of "willful, wanton, and reckless behaviour" for ignoring all the customer complaints.

McDonald's process for making coffee constituted a manufacturing defect, resulting in numerous customer injuries and generating significant product liability for the company.

Marketing Defects

Marketing defects result from flaws in the way a product is marketed. Examples include improper labelling, poor or incomplete instructions, or inadequate safety warnings. Often, marketing defects are referred to as a "failure to

warn." The marketer needs to consider not only the warnings that the user may need when using the product as intended, but also other, potentially hazardous uses for which the product was not intended.

For example, fabric used in children's sleepwear must meet certain flammability requirements to prevent the risk of injury from fires. Certain comfortable children's clothing that does not meet the flammability requirement can be confused with sleepwear. For this reason, such clothing will often contain a warning label that reads, "Not intended for sleepwear."

Over time, product liability has shifted more in favour of the injured product user. While a discussion of all aspects of product liability is beyond the scope of this course, it is clear that liability has and will continue to have a tremendous impact on consumers and manufacturers alike. These two groups are not the only ones affected, either.

Fraud is the deliberate deception of someone else with the intent of causing damage. The damage need not be physical damage—in fact, it is often financial.[1]

When we consider the elements of the marketing mix—product, price, promotion, and distribution—there are opportunities for deception in each area.

Product: Is the product designed and manufactured as the customer would expect, given the other elements of the marketing mix? Is the customer warned about the product's limitations or uses that are not recommended?

Price: Is the total price of the product fairly presented to the customer? Is the price charged for the product the same as the price posted or advertised? Has something been marketed as "free"? Does the company disclose information about finance charges?

Promotion: Can claims made to consumers be substantiated? Are disclaimers clear and conspicuous? For products marketed to children, is extra care taken to accurately represent the product?

Place (Distribution): Does the distribution channel deliver the product at the price and quality promised? Do other companies in the distribution channel (wholesalers, retailers) perform as promised and deliver on expectations set for product, price, and promotions?

https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-fraud-in-marketing/

Marketing Fraud

From a marketer's perspective, the story illustrates various types of fraud, which had devastating consequences for both shareholders and stakeholders. Deliberate deception was an integral part of the company's strategy, playing a dominant role in all aspects of marketing. Here are the top 10 fraud scams in 2016 as recorded by Bloomberg.

FAKE ONLINE ENDORSEMENTS

The #10 fraudulent scheme in 2016 is when "Consumers are often enticed to purchase a product or service based on reviews by social media influencers. Unfortunately, these reviews may not be genuine, and the influencer may have

1. *Fraud*. (n.d.). Cornell Law School. https://www.law.cornell.edu/wex/fraud

been paid by a company to be used as a marketing tool." [2] A series of deceptive advertisements are lying to consumers by using a popular scamming technique that has reportedly netted more than $1 billion worldwide.

Watch the VIDEO: Fake online influencers in Social media steal celebrity identities to sell products

2. *Canada's top 10 fraud scams in 2016.* (2017, March 07). BNN Bloomberg. https://www.bnnbloomberg.ca/canada-s-top-10-fraud-scams-in-2016-1.685562

13.4 B2B AND B2C MARKETER ETHICAL DILEMMAS

Learning Objectives

- Explain how B2B marketing creates unique ethical risks and challenges
- Describe the risks associated with customer gifts and bribes
- Explain how ethical dilemmas in business-to-business marketing differ from those in consumer marketing

In June 2013, Los Angeles United School District (LAUSD), the second-largest school district in the U.S., announced that it had signed a $30 million contract with Apple to provide students with iPads that were preloaded with educational software from Pearson PLC. It was an ambitious education technology initiative that promised to give students new learning tools and technology literacy.

By the end of 2015, the superintendent would resign, the program would be canceled, Pearson's philanthropic foundation would be closed, the companies would pay a $6.4M settlement to the school district to prevent litigation, and the FBI would be involved in a criminal probe of the program. It would be hard to imagine a worse result for any of the parties involved.

Circumventing the Public Bid Process

California law requires that such large projects go to public bid, which this project did, but well before the bid process, the email record between LAUSD Superintendent John Deasy and then CEO of Pearson Marjorie Scardino suggested that deals were made to purchase Pearson curriculum and Apple hardware. In fact, Superintendent Deasy made the initial introduction between Scardino and Apple CEO. In an email to Scardino, Deasy writes:

> I wanted to let you know I have [sic] an excellent meeting with Tim at Apple last Friday. The meeting went very well and he was fully committed to being a partner. He said he and his team will take 5 days to present a price plan and scope of partnership. He was very excited about being a partner with Pearson. I think it would be good for you to loop back with him at this point. I will reach out to you again in a week.[1]

Deputy Superintendent Jaime Aquino was tasked to work with Pearson on the project in advance of the bid process. His email messages indicate that he was attempting to influence the bid process in Pearson's favor. His email messages to Pearson executives include the following statements:

> I am not sure if legally we can enter into an agreement when we have not reviewed the final product for each grade and if the materials have not been approved by the state. I believe we would have to make sure that your bid is the lowest one.[2]

Violating the Restriction on Nonprofit Philanthropy

Pearson's non-profit philanthropy foundation was also involved in securing the deal, which violated certain federal restrictions. A Pearson Foundation vice president, Sherry King, was deeply involved in discussions with top officials at the Los Angeles Unified School District about selling the district the new Common Core digital curriculum in 2012 and 2013, well in advance of the formal bid process. The Pearson Foundation was providing education leadership grants to LAUSD as early as 2007.[3]

The Pearson Foundation came under fire for another tactic. *The New York Times* reported:

> In recent years, the Pearson Foundation has paid to send state education commissioners to meet with their international counterparts in London, Helsinki, Singapore and, just last week, Rio de Janeiro. The commissioners stay in expensive hotels, like the Mandarin Oriental in Singapore. They spend several days meeting with educators in these places. They also meet with top executives from the commercial side of Pearson, which is one of the biggest education companies in the world, selling standardized tests, packaged curriculums and Prentice Hall textbooks.[4]

The New York Times reported that Gavin Payne of California participated in an expense-paid trip to Singapore.

The Pearson Foundation was also fighting battles over its tactics in New York state, where the New York state attorney general won a $7.7 million judgment against the foundation. His written statement read:

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1. Blume, H. (2014. August 24). *LAUSD officials had close ties with Apple, Pearson execs, records show.* Los Angeles Times. http://www.latimes.com/local/education/la-me-ipads-deasy-20140825-story.html

2. Blume, H. (2014. August 24). *LAUSD officials had close ties with Apple, Pearson execs, records show.* Los Angeles Times. http://www.latimes.com/local/education/la-me-ipads-deasy-20140825-story.html

3. http://newsroom.ucla.edu/releases/Pearson-Foundation-Provides-Fellowship-8216

4. Winerip, M. (2011, September 18). *When Free Tips Overlaps With Commercial Purposes.* The New York Times. http://www.nytimes.com/2011/09/19/education/19winerip.html

> The fact is that Pearson is a for-profit corporation, and they are prohibited by law from using charitable funds to promote and develop for-profit products. I'm pleased that this settlement will direct millions of dollars back to where they belong.

The Pearson Foundation board announced that it was closing the foundation in December 2013, after the New York judgment.

Poor Execution from All Players

Almost immediately after the district announced the deal, Apple unveiled new, updated iPads—in other words, from the get-go, students in the district would be receiving out-of-date devices. The cost the district was paying per iPad was actually higher than the regular consumer price. Many schools did not have the Wi-Fi infrastructure needed to support devices for all students. The district hadn't created policies or plans for loss or theft. Students bypassed security protocols so they could install music and video apps. The iPads were supposed to come preloaded with Common Core-aligned curriculum, designed by the education behemoth Pearson. But the curriculum was incomplete. A report[5] on the district's iPad program revealed that only one teacher actually used the Pearson materials.[6]

The Fallout

In October 2014, John Deasy resigned his role as superintendent.

In December 2015, with the help of a grand jury subpoena, the FBI seized twenty boxes of documentation related to the procurement process. No charges have been made since the seizure.

Immediately after the subpoena and FBI seizure, Deasy's successor canceled the contract with Apple (and therefore Pearson).

In September 2015, the vendors (Apple, Pearson, and hardware provider Lenovo) collectively agreed to pay LAUSD a $6.4 million settlement. Pearson has agreed to pay the full $6.4 million.

When businesses engage in selling to other businesses or to government entities, the laws, policies, norms, and ethics change. Some challenges involved in marketing to consumers are minimized, or go away altogether, but other ones arise. In this module we will explore the unique ethical challenges and opportunities in business-to-business marketing.

Learning Activities

5. Blume, H. (2014, September 18). *L.A. Unified survey finds little use of iPad's Curriculum.* Los Angeles Times. http://www.latimes.com/local/la-me-ipad-eval-20140918-story.html

6. Watters, A. (2014, December 09). *Ed-Tech Year in Review.* Model View Culture. https://modelviewculture.com/pieces/ed-tech-year-in-review

- Reading: Ethics in B2B Marketing
- Reading: Gifts and Bribes

Gift-giving in business is both commonplace and contentious. Business gifts are often viewed as a medium for advertising, sales promotion, and marketing communication.[1] Such gifting is usually practiced for the following reasons:

1. In appreciation for past client relationships, placing a new order, referrals to other clients, etc.
2. In the hopes of creating a positive first impression that might help to establish an initial business relationship
3. As a quid pro quo—returning a favour or expecting a favour in return for something [2]

In global marketing, it becomes one of the most challenging ethical issues, since the cultural norms in other countries can be at odds with standard ethical practices in Canada. For this reason, gifts and bribes warrant a more in-depth discussion, especially in the context of B2B marketing.

In considering appropriate business gifts it is helpful to think about the content of the gift, the context of the gift, and the culture in which it will be received. Let's examine one of Microsoft's promotions that included a gift.

Case Study: Microsoft's "Gift" to Bloggers

When Microsoft introduced its Vista operating system, the launch included a notable promotional campaign. During the 2006 Christmas season, Microsoft sent out ninety Acer Ferrari laptops, loaded with the Windows Vista Operating system, to approximately ninety influential bloggers.

Different bloggers received different machines, but the lowest model was worth around $2,000. Michael Arrington, editor of TechCrunch, shared the message that accompanied his gift:

Acer Ferrari One. Authored by: Masaru Kamikura. Located at: https://www.flickr.com/photos/kamikura/3976320866/. License: CC BY: Attribution

> *This would be a review machine, so I'd love to hear your opinion on the machine and OS. Full disclosure, while I hope you will blog about your experience with the PC, you don't have to. Also, you are welcome to send the machine back to us after you are done playing with it, or you can give it away to your community, or you can hold on to it for as long as you'd like. Just let me know what you plan to do with it when the time comes. And if you run into any problems let me know. A few of the drivers aren't quite final, but are very close.*[3]

1. Cooper,M. J., Madden, C. S., Hunt, J. B.,& Cornell, J. E. (1991). Speciality advertising as a tool for building goodwill: Experimental evidence and research implications. Journal of Promotions Management, 1, Pg 41–54

2. Arunthanes, W., Tansuhaj, P. & Lemak, D.J. (1994), Cross-Cultural Business Gift Giving, International Marketing Review, Vol 11, Issue 4, Pg 44

3. O'Brien, K. (2006, December 29). *Microsoft Vista blogger campaign causes controversy*. PR Week.http://www.prweek.com/article/1259420/microsoft-vista-blogger-campaign-causes-controversy

Clearly, Microsoft was hoping to encourage reviews of Vista and wanted to make sure that the bloggers experienced Vista on a high-end machine that would optimise performance. Did they also hope to influence the bloggers' opinions of the company along the way?

Sending the gift to bloggers was a risky marketing tactic even without the ethical question. Culturally, bloggers are a highly influential group of people with strong opinions, which they share openly with a wide audience. Many of the recipients reacted to the gift by sharing the news of the promotion and their opinions about it. A broad range of ethical issues emerged from the surrounding discussions in the blogosphere. Below are several excerpts.

The Gifts Diminish Trust in the Reviewers

> Now that I know these guys (any gals?) have access to a tailored laptop, preloaded, etc., I know their wisdom is no longer that of The Crowd—I suspect it is going to be tainted (even if not the case), so I have already discounted them. And, since I don't know who has and has not had the gift, I will distrust them all on this subject![4]

The Laptops Provide a Review Experience That Will Not Match Users' Experiences

> If you've ever tried to add a new Microsoft OS to an existing computer, you know you can't do that without totally f****** up your computer. The only way to switch to a new Microsoft OS is to start with a new computer. And, of course, to wait a year or two while they get the kinks out. Microsoft wouldn't chance having dozens of bloggers writing about how VISTA screwed up their computers, so they installed the system on brand-new computers. They gave the computers as gifts instead of lending them to the bloggers for review, which is the norm when dealing with traditional journalists.

The Bloggers Should Disclose the Gift in Their Reviews

> Microsoft's approach raises some problematic issues . . . How many bloggers have received a notebook but have not declared it on their blog? Quite a few, I suggest, which highlights the fundamental problem with blogging, which is that bloggers are not trained journalists and not necessarily in tune with the ethical problems that gifts entail . . .
>
> Finally, sending bribes to bloggers is not a good look for Microsoft, and this is exactly how this initiative will be perceived. Even as they try to defend themselves, Microsoft's PR gurus show that they do not understand the blogosphere.[5]

Another blogger shared the disclosure concern while supporting the promotion:

> *That is a GREAT idea. After all, how can anyone have a decent conversation about Windows Vista without having put a bunch of time on one of the machines? Now, regarding blogger ethics. Did you disclose? If you did, you have ethics. If you didn't, you don't. It's that black-and-white with me.* [6]

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4. Patrick, A. (2006, December 28). *Why giving Ferraris to Bloggers is a bad idea*. broadstuff. http://www.broadstuff.com/archives/97-Why-giving-Ferraris-to-Bloggers-is-a-bad-idea.html

5. *Microsoft doesn't know when to stop*. (2007, January 01). Cnet. http://www.cnet.com/news/microsoft-doesnt-know-when-to-stop/

6. Scoble, R. (2006, December 27). *I think the Microsoft Vista giveaway is an awesome idea.* scobleizer blog.*http://scobleizer.com/2006/12/27/i-think-the-microsoft-vista-giveaway-is-an-awesome-idea*

While there was no clear consensus on the ethics of this promotion, the debate overshadowed whatever positive opinion Windows Vista had generated in the blogs. The Microsoft case serves as a notable example of a business gift program gone awry. The company not only wasted the money spent on the gifts (none of the bloggers reported to have returned the laptops) but suffered weeks of bad press, and soured the commercial launch of the product.

Three Dimensions of Evaluating Gifts

The Microsoft example provides a three-dimensional framework for evaluating whether a gift crosses the line into bribery. (Remember that a bribe is something given to induce someone to alter their behaviour—in this case, to write a favourable product review.) The framework helps establish guidelines for keeping business gifting aboveboard.

Content

The chief problem with Microsoft's gift was the content. Content refers to the nature of the gift itself (a shiny, new, top-of-the-line laptop) and the price ($2,000 or more). The company claimed that such a high-end machine was necessary to showcase the full capability of the Windows Vista operating system. And, they asserted, since the bloggers were given the option of returning the laptops (or giving them away), the issue of bribery didn't come into play and the onus of acting ethically fell to the recipients.

Nonetheless, Microsoft's actions represented a departure from the standard industry practice of sending preview disks of software to opinion-makers. While it might be acceptable to give out $2,000 gifts in other industries (like sending out expensive fashion clothing to movie stars), and one can dicker about whether $2,000 is or isn't too extravagant, the point is that Microsoft broke with the conventions of its own industry.

The key lesson is that *what* is being given defines the nature of gifting, and extreme care must be taken to determine whether that gift is appropriate. While the market price of a gift item can be used as a benchmark, the type of gift is as important as its price. If Microsoft had given out $2,000 worth of software, it wouldn't have been so controversial. Another point, which Microsoft surely knew, is that items sent around Christmastime are more apt to be perceived as gifts.

Context

The other objection to the Microsoft gifts was the company's motives for giving them. People argued that Microsoft sent the expensive laptops to bloggers as a quid pro quo. Though the accompanying email said "you don't have to write about Vista," that was mainly a legal disclaimer meant to protect Microsoft against formal bribery charges (U.S. corruption law prohibits corporate gifts designed to induce action by the recipient). The company may have avoided legal trouble, but it remained vulnerable to the charge that it attempted to exert psychological pressure on the bloggers to write about their "pleasurable" experiences with Vista.

The other argument was that laptops were given to the bloggers so that they would lack the proper testing environment that mainstream tech journalists have. The bloggers were set up to write good things about Vista by seeing it function in a brand-new machine, tuned and tested for this purpose by Microsoft engineers. The experience of actual users—who might be influenced by these bloggers' opinions—would be different, since they would have to install the software on older machines with no help from Microsoft. Critics argued that the company's promotion was intended to create a false opinion of the market.

While most businesses define what a bribe is and what it isn't in terms of the *content* of the gift, in most countries,

the matter is decided on the basis of *context*. So, regardless of the size, type, and value of the gift, if it can be established that the gift was given with the intent to induce an action, it will be regarded as a bribe. The lesson here is that it isn't enough for businesses to set clear value/type limits on corporate gifts; it's also necessary to scrutinize the motives behind the gift-giving, think carefully about how the gift will be received, and stop short of anything that induces the recipient to crosses the line of ethical behavior.

Culture

Other critics argued that Microsoft's blunder was not caused by the content or context of the gifts, but rather that the company fundamentally misunderstood the culture of blogging. This view primarily came from marketing practitioners, who pointed out that giving laptops to elite bloggers contradicted the egalitarian and sponsorship-free nature of social media. It's a culture whose members loathe any kind of commercial taint to their independence and are highly sensitive to charges of "selling out."

Thus, culture is clearly the third very important aspect of gift-giving. It's crucial to establish clear boundaries and protocols so that gifts are truly received as gifts, not as attempts to influence. To do that means factoring in the recipient's mindset and culture, since what may be perceived as a gift in one group may seem like a bribe in another. The "cultural" dimension is easily understood in personal gift giving (a toy truck might be an excellent present for your six-year-old nephew, but it wouldn't be appropriate for your boss or grandparent). Yet, somehow, the idea of discretionary gift giving hasn't gained much ground in business. However, understanding the cultural preferences of the receiver is obviously an important issue in international business—and was a key failure.

13.5 ENSURING ETHICAL MARKETING AND SALES

Learning Objectives

- Explain the importance of ethics policies and a culture of accountability for all employees
- Identify the unique ethical considerations and roles for company executives
- Describe how companies manage ethical behavior of marketing employees
- Describe measures companies take to encourage ethical behavior

Ethical issues arise at both an organizational level and an individual level. A single individual can engage in unethical behavior, but most ethical breaches that have significant impact on a business occur when many individuals come together to act unethically. This section will review the steps that businesses take at each level to define ethical behavior and create a culture that encourages employees to do the right thing.

"*The way to gain a good reputation is to endeavour to be what you desire to appear.*"—Socrates

Learning Activities

- Reading: A Culture of Accountability
- Reading: Executive Role in Ethics
- Reading: Ethics for Marketing Employees
- Simulation: Ethics

At the beginning of this module we discussed the 2015 revelation that Volkswagen installed emissions-altering software in eleven million diesel vehicles worldwide, which caused the cars to pass emissions tests they should have failed. Consider, for a moment, how many employees would have to be involved in order to achieve this level of fraud? This was not the handiwork of a single employee but the result of a pattern of unethical behavior in the company. When the Ethics & Compliance Initiative (ECI) released the results of its 2018 National Business Ethics Survey, it noted that these types of broad, organizational breaches are fairly common.

> *The survey shows that a significant amount of misconduct involves continuous, ongoing behavior rather than one-time incidents: Employees say that more than a quarter (26 percent) of observed misconduct represents an ongoing pattern of behavior. Another 41 percent said the behavior has been repeated at least a second time. Only one-third (33 percent) of rule breaking represents a one-time incident.* In the case of Volkswagen, an early internal investigation pointed to a "culture of tolerance" for ethical compromises. Employees were pushed to do what was needed to meet corporate objectives at any cost.

The organizational culture is comprised of the values and beliefs that an organization shares, which create its social environment. The culture of a large organization can be difficult to understand since it is influenced by many different factors. Still, many research studies point to leadership and policies as being instrumental in building an ethical organizational culture.

Policies That Encourage Ethical Behavior

Many companies have a specific policy that defines appropriate behavior. The policy is often called the Standards for Business Conduct. As the name suggests, the policy is intended to set the standards for acceptable behavior; it's not meant to be an exhaustive list of every type of ethical behavior.

Many of these policies do the following:

- Define the threshold for behavior: While it should go without saying that employees are expected to be law-abiding, companies choose to be quite explicit about stating that they require their employees to follow the law.
- Create expectations for behavior: The policies identify common issues that employees may encounter—such as accepting gifts from suppliers—and explain how they should be handled.
- Set policy: establish company protocols for handling confidential information, including customer data, etc.
- Give guidance on making judgment calls: Companies often define how they would like employees to make decisions when guidelines do not adequately cover them.
- Describe reporting and enforcement procedures: There is generally a process for reporting and addressing issues, as well as information about how the company will protect those reporting concerns.

Let's examine some examples from company policies to see how some of these components are addressed.

The Legal Threshold

The ethics policy generally begins by reminding employees that they are required to act in accordance with the law. For companies that engage in business across the globe this can be complex. Starwood Hotels and Resorts address this issue in their Code of Business Conduct and Ethics:

> *You must, at all times, obey the laws of the jurisdictions where we conduct business. Starwood conducts business all around the world. Our associates are citizens of many countries. As a result, our operations are subject to the laws of many jurisdictions. It is often challenging for us to understand how those various laws apply to our businesses. However, whether you are a Starwood associate or member of the Board of Directors, you are expected to conduct yourself in accordance with applicable law.*
>
> *Starwood is a company organized under the laws of the United States and is generally subject to U.S. federal law. From time to time, the laws of the United States conflict with laws of a city, town, country or other jurisdiction where we conduct business. If there is a conflict between the applicable laws, seek guidance from the Office of the General Counsel (Legal).*

Starwood has established a clear expectation to follow the law, acknowledged the complexity of their business environment, and provided direction when employees need help.

Creating Expectations for Behavior

In the course of a normal business day, many service employees receive tips. Where is the line between an appropriate tip and a gift? Starbucks has defined this for employees in its Standards of Business Conduct:

> *A gift or favor should not be accepted or given if it might create a sense of obligation, compromise your professional judgment or create the appearance of doing so. In deciding whether a gift is appropriate, you should consider its value and whether public disclosure of the gift would embarrass you or Starbucks.*
>
> *A gift of money should never be given or accepted. (Some retail partners, however, may accept customary tips for service well done.) As a general rule, partners should limit gifts to or from any one vendor or business associate to US $75 per year. A gift of nominal value may be given or accepted if it is a common business courtesy, such as coffee samples, a coffee cup, pens or a similar token. However, during traditional gift-giving seasons in areas where it is customary to exchange gifts of money, such as China, Japan, Malaysia, Singapore and Thailand, partners should not solicit but may exchange cash with nongovernmental business associates in nominal amounts up to the equivalent of US $20.*[1]

It is very common for companies to set a threshold for giving and receiving gifts. These specific guidelines help employees navigate what would otherwise be a judgment call and make it easier to identify an ethical breach and initiate corrective action.

Setting Policy

United Parcel Service (UPS) groups the sections of its Code of Business Conduct into stakeholder groups: our company, our people, our customers, our shareholders, and our communities. This enables the company to address a range of workforce expectations, such as workplace safety:

> UPS is committed to a safe work environment that is free of threats, intimidation, and physical harm. Everyone has a

1. Starbucks. (n.d.). Business Ethics and Compliance. https://globalassets.starbucks.com/assets/eecd184d6d2141d58966319744393d1f.pdf

> right to work in a safe environment and everyone shares the responsibility for ensuring the safety of others. We have zero tolerance for workplace violence, and we will investigate and take appropriate action up to and including dismissal regarding any threats to a safe workplace.
>
> UPS prohibits violent behavior in the workplace including, but not limited to, physical assaults, fighting, threatening comments, intimidation, threats through electronic communications including social media, and the intentional or reckless destruction of property of the company, employee, UPS representative, or customer. Comments or behavior that reasonably could be interpreted as intent to do harm to people or property will be considered a threat. We also prohibit the unauthorized possession and/or use of weapons by any employee or UPS representative while at work, on company property, or while on company business.[2]

The UPS policy is very specific about its expectations of employees in ensuring a safe work environment.

Judgment Calls

No policy will address every issue, nor should it try. Most policies try to guide employees in the way they should make judgment calls. In its Standards of Business Conduct, American Airlines addresses this issue specifically:

> Remember, your best resource about what's right or wrong is your own conscience. So if you find yourself in a difficult situation, think before you act. And ask yourself the following questions:
>
> - Is it legal? If it's not legal, don't do it.
> - Is it ethical? If it feels wrong, it probably is wrong.
> - How would it look in the newspaper? If you wouldn't feel comfortable if your friends and family knew about your actions, you probably shouldn't do it.

These policies are an important tool in building a culture of accountability and ethical behavior in a company, but the policies must be upheld by all the employees, and senior leaders play a significant role in reinforcing their importance.

Accountability and Crisis Management

A culture of accountability is critical in a crisis. Maple Leaf Foods faced an outbreak of a deadly bacteria in 2008: Listeria. It was a tragedy where 23 Canadians died. Michael McCain, CEO, stepped out into the press and immediately communicated with the public and its distributors about the contamination. Today, the crisis and the management of it is reviewed in business schools as a best practice.

> *"I can guarantee you, you won't find any other major corporate training videos that show a hearse," he (SVP of Operations and Food Safety) said, emphasizing that it's important for new staff members to understand why the organization continues to raise the bar of food safety standards.*
>
> *Maple Leaf Foods has been applauded time and time again for how it handled this tragic event. There was no complex communications strategy or a huge PR crisis team enlisted, instead they kept close to home and close to their values."*[3]

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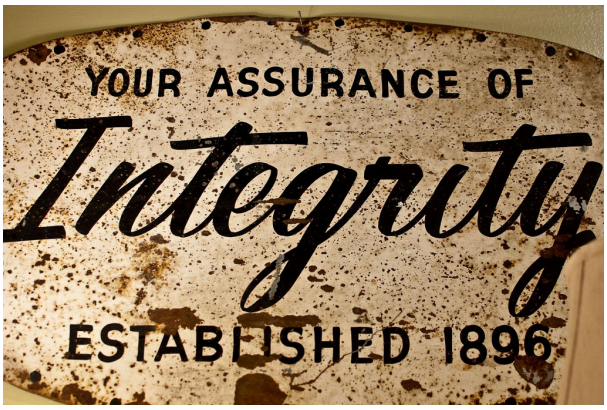
2. UPS. (n.d.). *Code of Business Conduct.* https://www.ups.com/media/en/code_bus_conduct.pdf

3. Urgency. Accountability. Transparency: Lessons from Maple Leaf Foods SVP Randy Huffman. (2014, November 26). Ivey.*https://www.ivey.uwo.ca/news/news-ivey/2014/11/maple-leaf-foods-urgency-accountability-transparency/*

If you are hired to work in marketing at a typical company, there will likely be clear ethical standards defined in a company policy and some level of compliance among employees at all levels in the company. You will witness ethical breaches and need to decide whether to report them or not. You will see examples of outstanding ethics and have the opportunity to participate in debates about ethical disagreements and issues. No company is perfect, but most are trying to be ethical.

How can you, as a marketer, make a difference? Marketers have a specific set of responsibilities when it comes to preventing and addressing ethical issues. These are described below.



Integrity. Authored by: atalou. Located at: https://www.flickr.com/photos/natalieguinsler/5565750498/. License: CC BY-NC-ND: Attribution-NonCommercial-NoDerivatives

Demonstrate Respect for Your Target Customer

Marketing is not a game of manipulation. Good marketing provides compelling solutions and informs customers to help them make good selections and realise value. Recognise the customer's need for an offering that is easy to use and includes clear instructions and appropriate warnings. Remain available to customers to hear complaints. Be humble enough to recognise that not everyone wants to hear your messages. If you demonstrate respect for the consumer, you will find new opportunities to provide value. If you treat consumers like a commodity to be manipulated, a host of ethical issues will clutter your path.

Prepare the Sales Team to Sell Effectively and Ethically

If personal sales are a part of the business plan, then marketers have an important responsibility to prepare the sales team for success. Often, marketers are tasked with creating the message, while sales representatives are responsible for delivering it. When the sales representative is prepared with a strong value proposition, effective communication materials and presentations, and thorough market research, they can do their best work. When the marketing mix is not hitting the mark, the sales rep's job is much more difficult, and there is a greater risk of ethical issues. It is the marketer's responsibility to prepare sales reps to be successful without compromising their integrity.

Demonstrate High Personal Standards in Business Relationships

Marketers often entertain and give gifts. It is not unusual for the marketing team to create a gift list for all customers. Marketers cultivate business relationships and distributor relationships as well. If marketing demonstrates a high standard of professionalism and ethics in these relationships, it sends a strong message and increases the expectation that others will do the same.

Provide Fair Value to the Target Customer

Many ethical issues arise from some level of deception, including the misstatement of value to the customer. Be accurate in communications to customers about the value that a product provides. Be clear in pricing and contracts. Pricing strategies that confuse customers and cost more than the customer initially believed are never a good long-term strategy.

Play Nicely in the Competitive Environment

Companies in a competitive market shift positions and introduce innovations to give them a new competitive advantage. This is the very nature of a competitive marketplace. Treat competitors with respect and learn from their approaches. Conduct thorough competitive research to gain a deeper understanding of them. Do not seek to gain confidential information about competitors or their products.

Price Fixing is Unethical and Illegal

Watch the 2018 Global News report that revealed the practice of all major grocery manufacturers to fix the retail price of bread for Canadians for over 14 years! Food inflation has been very high over the last decade, and well-known grocery brands such as Loblaws (Westin & Superstore), Sobey's and Walmart were colluding to fix the price for all its customers with a manufacturer, Canada Bread.[1]

Be Truthful

Seek to create a relationship of trust with your target customer through honest, helpful communication. This is such a simple but important recommendation for all marketers. If customers trust the product, the company, and the brand, business results improve, and the company has greater flexibility to introduce new products or make market adjustments.

1. Russell, A. (2018, January 31). 7 Canadian companies committed indictable offences in bread-price fixing scandal: Competition Bureau. Global News. https://globalnews.ca/news/3998023/bread-price-fixing-scandal-competition-act-crimes/

13.6 SOCIAL RESPONSIBILITY MARKETING IMPACT

Learning Objectives

- Define social responsibility
- Identify examples of social responsibility that create value for customers
- Explain the impact of social responsibility on marketing results
- Explain how demonstrating corporate social responsibility can impact marketing

We have reviewed many ethical challenges and potential traps for marketers. How can a marketer win? Actually, in lots of ways. Increasingly, marketers are doing more than just trying to avoid doing harm; as you'll see, they're taking on important issues and are making a difference, actively doing good.

Earlier in this module we discussed what corporate social responsibility is and how social responsibility programs impact many different stakeholders in a business. In this section we focus on the role of corporate social responsibility in marketing. We will look at the marketing mix—product, price, promotion, and distribution—and see how companies are changing their marketing strategies to visibly contribute to their communities.

Finally, we'll talk about the results that companies achieve when social responsibility is part of the marketing strategy.

Learning Activities

- Reading: Social Responsibility in the Marketing Strategy
- Reading: Social Responsibility Initiatives

Corporate social responsibility is the ethical behaviour of a company toward society. It means acting responsibly toward the stakeholders, not just the shareholders, who have a legitimate interest in the business. Let's focus on how marketers use corporate social responsibility to achieve marketing objectives.

First, let's return for a moment to the marketing planning process. Where does social responsibility fit in? It generally comes into the planning process in one of two ways:

1. Social responsibility may be a corporate-level strategy with specific objectives.
2. Social responsibility may be part of the marketing mix based on the situation analysis.

Let's look at both of these approaches.

Corporate Strategy at Coca-Cola

Coca-Cola's mission is:

- To refresh the world . . .
- To inspire moments of optimism and happiness . . .
- To create value and make a difference.

In support of the vision, the company has created what it calls a "roadmap" that defines the focus areas for company strategies and tactics. These include:

https://courses.lumenlearning.com/waymakerintromarketingxmasterfall2016/chapter/reading-marketing-social-responsibility/

- **People:** Be a great place to work where people are inspired to be the best they can be.
- **Portfolio:** Bring to the world a portfolio of quality beverage brands that anticipate and satisfy people's desires and needs.
- **Partners:** Nurture a winning network of customers and suppliers, together we create mutual, enduring value.
- **Planet:** Be a responsible citizen who makes a difference by helping build and support sustainable communities.
- **Profit:** Maximise long-term return to shareholders while being mindful of our overall responsibilities.
- **Productivity:** Be a highly effective, lean, and fast-moving organisation.[1]

Which of the roadmap areas focuses on social responsibility? "Planet" is clearly a social responsibility focus, as it acknowledges a responsibility to improve the world beyond the sale of Coca-Cola's products. "People" also suggests a note of social responsibility; Coca-Cola strives to be a place where employees are not only doing a good job for the company but are inspired to be their best as people.

Marketing Strategies to Address Childhood Obesity

Coca-Cola doesn't specifically address customer health in its roadmap, but this concern has become a significant component of its marketing strategy, and the company has developed a specific set of marketing programs to address childhood obesity. Childhood obesity is a challenging issue for the company. If you were to conduct a SWOT analysis of Coca-Cola, you could imagine that this issue would appear under "external threats" and have a negative impact on its market. In most K–12 schools in the Canada, since 2004 the sale of soft drinks has been steadily eliminated. Rather than waiting to see how this trend might unfold, marketing decided to take a proactive approach. In 2013, Coca-Cola announced its four global well-being commitments to help fight obesity, each of which has a direct impact on the marketing mix:

1. Offer low- or no-calorie beverage options in every market. (Product)
2. Provide transparent nutrition information, featuring calories on the front of all of our packages. (Product)
3. Help get people moving by supporting physical activity programs in every country where we do business. (Promotion)
4. Market responsibly, including no advertising to children under 12 anywhere in the world. (Promotion)[2]

Coca-Cola has added several water and juice brands to its product portfolio to achieve these social responsibility objectives. It has allocated a substantial budget to develop physical activity programs in its markets. The tone of the company's advertising has shifted to focus on an older audience.

Increasingly, companies worldwide are incorporating social responsibility objectives into their corporate-level plans. The majority of U.S. companies in the S&P 500 and Fortune 500 provide investors with reports on their sustainability goals and performance.[3]

With this emphasis and accountability, social responsibility is no longer regarded as a "special project," but is becoming an integral part of the corporate and marketing planning process that is central to business performance and success.

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1. *Purpose and Vision.* (n.d.). The Coca-Cola Company. https://www.coca-colacompany.com/company/purpose-and-vision

2. *Question: Does Coca-Cola market its products to children?* (n.d.). The Coca Cola Company. https://www.coca-colacompany.com/faqs/does-coca-cola-market-to-children

3. *Number of Companies in S&P 500E and Fortune 500R Reporting on Sustainability More Than Doubles From Previous Year, According to New Analysis by Governance & Accountability Institute.* (n.d.). Governance & Accountability Institute. https://www.ga-institute.com/press-releases/npage/9/article/number-of-companies-in-sp-500R-and-fortune-500R-reporting-on-sustainability-more-than-doubles-fro.html

The Business Case for Social Responsibility

Regardless of broader benefits, there is a strong business case for social responsibility. Public companies' stock prices benefit from strong social responsibility initiatives.

In fact, socially responsible investing and one of its subsets, impact investing, accounted for more than $1 out of every $4 under professional management in the U.S., according to a 2018 survey by the U.S. Forum for Sustainable and Responsible Investment. This amounts to over $12 trillion in assets under management yearly.[1]

For marketers, the desire for socially responsible products and companies is driven by consumers. Nearly 30 percent of consumers plan to increase the number of goods and/or services they buy from socially responsible companies in the coming year. Twenty-five percent avoided buying products from an enterprise because they thought it wasn't socially responsible.[2]

Social Responsibility Programs

In defining social responsibility programs and goals, companies are acknowledging a commitment to creating a better world. How do they determine where to focus these efforts and what are they trying to achieve? Generally, companies are expanding on unique market strengths that benefit society and trying to reduce the negative impact of their products on society. As with any other business strategy, an approach that is customized to the company and its market is likelier to have a greater impact. For example, Coca-Cola's emphasis on preventing childhood obesity acknowledges and addresses a risk that the company brings to its market. If Exxon Mobile launched a childhood obesity initiative, it wouldn't have the same impact. The company's oil and gas offerings don't have a direct impact on childhood obesity, and thus it would raise questions about the energy company's commitment to addressing issues much closer to home—i.e., the serious impact that Exxon Mobile products have on the environment.

Many companies are implementing a host of social responsibility strategies through sustainable product initiatives.

Creating Sustainable Products

A sustainable product is constantly environmental-friendly during its entire life. That is, from the moment the raw materials are extracted to the moment the final product is disposed of, there must be no permanent damage to the environment.[3]

1. U.S. Forum for Sustainable and Responsible Investment. "Sustainable and Impact Investing— Overview." Accessed April 17, 2020.
2. Field, A. (2013, April 05). *Consumers Like Social Responsibility–but They Aren't Sure What a Social Enterprise Is.* Forbes.http://www.forbes.com/sites/annefield/2013/04/05/consumers-like-social-responsibility-but-they-arent-sure-what-a-social-enterprise-is/
3. Frank-Martin B. and Peattie, K. (2009). Sustainability Marketing: A Global Perspective. Wiley, United Kingdom.

A sustainable product focus may include:

- Use of organic raw materials
- Sustainably harvesting of raw materials
- Emphasizing human rights and labor conditions in sourcing decisions
- Use of renewable energy in the production process
- Ensuring that the use of the product creates a positive impact on the community
- Creating product recycling and reuse options
- Improving the impact of the product's use on human and environmental health

The intent of a sustainable product strategy is that the company is identifying the impact of its products on society at every phase of the product lifecycle, and minimizing the negative impacts. Sustainable product initiatives are so broad in scope that they often encompass all of the social responsibility initiatives. This broad scope also requires companies to be focused and realistic about what they can achieve, setting appropriate objectives that demonstrate progress and identify where more work is needed.

As the world's largest retailer, Walmart faces unique challenges in product sustainability. It must not only focus on its stores, but on the products provided and transported by a broad network of suppliers. To address this, Walmart had partnered with The Sustainability Consortium to create a sustainability index that could be used to set standards and measure progress across its value chain. The goals of the index were to:

- Improve the sustainability of the products customers love
- Integrate sustainability into the business of buying and selling merchandise
- Reduce cost, improve product quality and create a more resilient supply chain
- Strengthen customers' trust in retailers and the brands we carry

The company cited progress in its work.

One great example of how we are delivering impact is through the progress we've made on our goal to eliminate 20 million metric tons (MMT) of greenhouse gas (GHG) emissions from the supply chain. Through our partnership with the Environmental Defense Fund and by leveraging the Index as a tool to gain buy-in and create accountability, we've:

- *Eliminated 7.575 MMT of GHG by the end of 2013*
- *Implemented projects that are estimated to eliminate 18MMT of GHG emissions by the end of 2015*

Ever since then Walmart has hit a couple of other milestones such as becoming the largest on-site green power generator in the US, strengthen their sustainable sourcing requirements for products containing paper and pulp, launched the "Beyond the Bag" initiative to reinvented the single-use plastic bag and more. [4]

Walmart still has significant work ahead, but independent evaluations have been positive. Joel Makower of Green

4. *Sustainability Timeline: Walmart's Journey to a Better Future*. (n.d.). Corporate Walmart. https://corporate.walmart.com/sustainability-timeline

Biz reports that Walmart's sustainability initiatives are having a real impact, both on its operations and those of the companies in its supply chain. He also notes that some of that progress is offset by the company's rapid growth.[5]

5. Makower, J. (2015, November 17). *Walmart sustainability at 10: An assessment.* greenbiz. http://www.greenbiz.com/article/walmart-sustainability-10-assessment

13.7 PUTTING IT TOGETHER: ETHICS AND SOCIAL RESPONSIBILITY

In this module, we've covered a range of different corporate ethical challenges, legal requirements, and opportunities to contribute to social good. Every year, a company called Ethisphere conducts a thorough review of businesses seeking recognition for upstanding corporate citizenship. (See the full list of the World's Most Ethical Companies honourees and America's Most Reponsible Companies – 2022).

The review process captures company performance in five areas, but to be honoured, companies must demonstrate that they are addressing ethics and social responsibility holistically. The five factors, which are nicely aligned with the topics of this module, are described below, each accompanied by a brief description of how the companies demonstrate compliance.

1. Ethics and Compliance Program

We discussed this topic in our focus on company policy, along with the critical role of executive leadership in supporting and following the policy. This category reviews the ethics program's structure, responsibilities, and resources, and evaluates the program's oversight and tone among top management in the company.

In the following video, Walmart's chief ethics officer, Cindy Moehring, explains how the compliance and ethics team makes this sophisticated program simple:

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=262#oembed-1

You can view the transcript for "Making the Sophisticated Compliance Program Simple". (opens in new window)

2. Corporate Citizenship and Responsibility

We've looked at a number of ways in which companies can be good corporate citizens and "give back" to society and stakeholders. In this category, Ethisphere evaluates a wide range of a company's performance indicators associated with sustainability, citizenship, and social responsibility, with special attention to areas such as environmental stewardship, community involvement, corporate philanthropy, workplace impact and well-being, and supply chain engagement and oversight.

In the video below, Executive Vice President of Government Affairs, General Counsel, and Corporate Secretary of PepsiCo, Tony West, discusses the responsibility to society that businesses have:

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=262#oembed-2

You can view the transcript for "Sustainable and Responsible: Social License to Operate". (opens in new window)

3. Culture of Ethics

We also discussed the importance of building a culture of accountability within an organisation. In this area, the Ethisphere evaluation measures an organisation's efforts and success at establishing an ethical tone throughout every level of the company.

In the following video, Tony West of PepsiCo shares insight on sustainable ethical cultures, employee values, and their persistence over time:

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=262#oembed-3

You can view the transcript for "Sustaining Longterm Growth Through Culture". (opens in new window)

4. Governance

We discussed the importance of executive leadership in monitoring and promoting a quality company culture. This category of the Ethisphere review assesses the availability and quality of systems designed to ensure robust corporate governance, which encompasses not only executive managers but also the company's board of directors.

CH2M Hill board member Georgia Nelson discusses the positive effects of board diversity on corporate governance and innovation in the video below:

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=262#oembed-4

You can view the transcript for "Importance of Board Diversity on Corporate Governance and Innovation". (opens in new window)

5. Leadership, Innovation, and Reputation

The companies that make Ethisphere's list of honorees are visibly presenting themselves in an ethical context, which

supports their reputation among all stakeholders. This category assesses the company's ethical reputation in the marketplace and among key stakeholders, including employees and customers.

In the video below, the corporate communications manager of Aflac International, John Sullivan, explains how ethical practices reflect on the business:

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=262#oembed-5

You can view the transcript for "Aflac Incorporated on How Ethical Practices Reflect on the Business". (opens in new window)

New Solutions with Different Corporate Structures and Business Models

With the evolution of Corporate Social Responsibility (CSR) to Environmental Social Governance (ESG), which measures and holds organisations to account for their practices, new global business models have appeared to formalise not only their policies and practices but also their legal structures on how they generate and measure economic value. A few examples described below include Non-Profits, Non-Governmental Organisations (NGO), Social Enterprises and B Corps.

Non-Profits and Non-governmental organisations (NGO)

They are effectively the same thing. Non-governmental organisations, or NGOs, were first called such in Article 71 of the Charter of the newly formed United Nations in 1945. They operate in many different areas across the globe.

> An NGO is a non-profit, citizen-based group that functions independently of government. NGOs, sometimes called civil societies, are organized on community, national and international levels to serve specific social or political purposes, and are cooperative, rather than commercial, in nature.[1]

An example of an NGO is Oxfam or World Vision

Social Enterprises

Social enterprises are not a formal tax structure, but they are different from charities.

> While earning profits is not the primary motivation behind a social enterprise, revenue still plays an essential role in the

1. Folger, J. (2021, January 18) *What is an NGO (Non-Governmental Organization)?* Investopedia. https://www.investopedia.com/ask/answers/13/what-is-non-government-organization.asp

sustainability of the venture. Sustainable revenue differentiates a social enterprise from a traditional charity that relies on outside funding to fulfill its social mission. [2]

There are many social enterprises in Nova Scotia, one of which is Hope Blooms.

B Corps

B Corps are a relatively recent development, initiated in 2006 by three friends who quit their jobs to establish the certification and measurement process for global impact. Any organisation can qualify for the demanding standards.

> *Certified B Corporations are businesses that meet the highest standards of verified social and environmental performance, public transparency, and legal accountability to balance profit and purpose.*

Check out the most popular B corporations in the world, which include Moodle, TOMS, and Warby Parker.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://oercollective.caul.edu.au/fundamentals-successful-marketing/?p=262#oembed-6

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CHAPTER 11: PRICING STRATEGIES

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