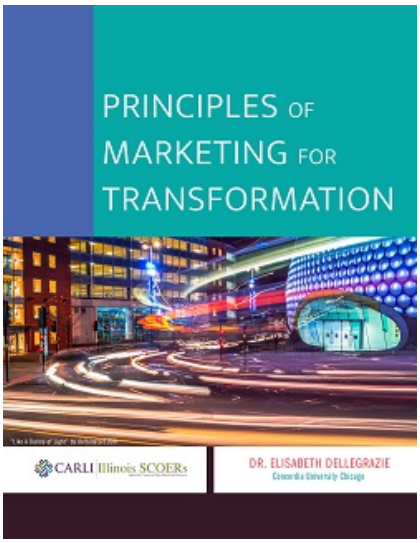
PRINCIPLES OF MARKETING FOR TRANSFORMATION



Elizabeth Dellegrazie
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Principles of Marketing for Transformation

Elisabeth Dellegrazie, PhD

Concordia University Chicago

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Licensing

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Elisabeth Dellegrazie, PhD

Dr. Beth Dellegrazie, PhD is the Assistant Dean of Faculty, Curriculum and Instruction in the College of Business at Concordia University Chicago.

As an educator of 15 years at Concordia University Chicago, Dr. Dellegrazie supports a student-centered learning environment (SCLE) through the creation of curriculum and pedagogical methods that increase new knowledge by building on each student's unique existing knowledge. Learning is related to experiences, so the business curriculum has experiential and applied learning projects embedded. Integrating the local community and businesses into students' academic development adds an additional educational dimension that links the student to future vocational roles and social responsibility.

Prior to accepting a position at Concordia-Chicago, Dellegrazie spent more than twenty years in a variety of corporate business settings, including internationally-recognized and Fortune 500 companies. In her work as a category manager with Grohe America, she achieved double-digit growth during her oversight of the company’s North American portfolio. She achieved similar success managing Boise, Inc’s $150 million product portfolio. Dellegrazie earned new product development experience from her role at Chicago Faucet where she identified new channels, new customers, and new product opportunities through research, scenario evaluation, forecasting, and financial risk assessment. With prior total revenue responsibility over ITW Brands' construction products for the big box portfolio, she also possesses both B2B and B2C marketing experience.



Preface

Preface

The Creation of this Open Educational Resource (OER)

This textbook and ancillary materials were created as part of the Illinois Support for the Creation of Open Educational Resources (SCOERs) project, facilitated by the Consortium of Academic and Research Libraries in Illinois (CARLI) and funded by a $2 million Open Textbooks Pilot Program grant from the Department of Education and the Fund for the Improvement of Post-Secondary Education.[1]

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Developing authors remix existing OER and create content from evidence-based sources that are aligned with the Illinois Board of Higher Education.

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CHAPTER OVERVIEW

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1.1: In the Spotlight

Since its launch in 1967, Gatorade has been a power player in the sports drink beverage category. Gatorade dominates the US sports drink market, garnering 67.7% of the market, followed distantly by the Coca-Cola Company's Powerade and BODYARMOR brands at 13.7% and 9.3%, respectively (Arthur, 2021). That Gatorade has maintained such a large market share demonstrates parent company PepsiCo's understanding of the marketing mix (i.e., product, price, place, and promotion), how to integrate these elements for its target market, and how to adapt its marketing mix continually to meet changing consumer demands.



Figure 1.1 Gatorade remains a market-leading product due to parent company Pepsi's success with the marketing mix—product, price, place, and promotion. (credit: modification of work "Gatorade" by JeepersMedia/flickr, CC BY 2.0)

First, let's consider its approach to the product itself. Gatorade managers saw the exercise boom coming as baby boomers began to age and wanted to be the performance and thirst quencher for everyone from kids to pros. The product, which was intended to replace electrolytes lost in sweat, was scientifically formulated first at the University of Florida and later at the Gatorade Sports Science Institute. But Gatorade didn't rest on its laurels when it came to product innovation. For example, to lure back "lapsed" consumers with concerns over sugar, it launched Gatorade Zero, a thirst quencher without sugar. It also launched its G Series Performance, a new line of food and beverage products designed to provide fuel, fluid, and nutrients before, during, and after activity (Arthur, 2021).

In terms of pricing, Gatorade originally priced its product using a premium strategy because the product was unique. However, to retain its lead, the company subsequently adopted competitive pricing policies when competitors entered the market (Rovell, 2006).

Gatorade has continued to pump marketing dollars into advertising campaigns. For example, in 2020, it launched an iconic advertising campaign featuring some of the world's "greatest of all time (GOAT) athletes"—the NBA's Michael Jordan, tennis star Serena Williams, soccer legend Lionel Messi, and track star Usain Bolt. In the commercial, the sports stars appear at a mythical setting called "GOAT Camp," where student–athletes (considered "future GOATS") can train with these stars (Heath, 2020). Check out the GOAT camp commercial below:



In 2020, Gatorade launched an impactful digital strategy. When NBA games were canceled because of the pandemic, ESPN aired a 10-part documentary, “The Last Dance,” about Michael Jordan’s last year with the Chicago Bulls. Because Gatorade wasn’t an official sponsor, it partnered with the NBA to stream 1998’s Game 6 featuring the Jazz versus the Bulls in what would be superstar Jordan’s last game with the Bulls. Gatorade sponsored a “watch party” keyed to the hashtag #Game6Live (X, 2022). Review Gatorade’s strategy on Twitter’s Marketing website, which outlines campaign results, opportunity, and steps taken.

Gatorade is an example of how one company built market dominance by creating the optimal integration of its marketing mix—product, price, place, and promotion—throughout a product’s life cycle.

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1.2: Marketing and the Marketing Process

Learning Objectives

By the end of this section, you will be able to:

- Define and describe marketing.
- Describe the benefits of marketing to the organization, its interested parties, and society.
- Explain the marketing process.

Marketing Defined

When you ask a group of people, “What’s marketing?” most people will answer “advertising” or “selling.” Both functions are indeed part of marketing, but marketing is much more than that. The American Marketing Association (AMA) defines marketing as “the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large" (American Marketing Association, n.d.). That’s kind of a mouthful, so let’s see if we can simplify it a bit.

At its most basic level, marketing comprises every process involved in moving a product or service from the organization to the consumer. It includes discerning the needs of customers, developing products or services to meet those needs, identifying who is likely to purchase the products or services, promoting them, and moving them through the appropriate distribution channels to reach those customers. Marketing, quite simply, is about understanding what your customers want and using that understanding to drive the business.

Marketing can also be defined as the set of activities involved in identifying and anticipating customer needs and then attempting to satisfy those needs profitably (Chartered Institute of Marketing, 2009). But what does that really mean? Let’s break down that definition:

- ***Identifying customer needs***. This is typically where marketing research comes in. Marketing research methods will be covered in a later chapter, but market research helps a company develop a detailed picture of its customers, including a clear understanding of their wants and needs.
- ***Anticipating customer needs***. After analyzing the data collected, marketers can predict how products might be changed, adapted, or updated.
- ***Satisfying customer needs***. If marketers have done their homework correctly and understand their customers’ needs clearly, consumers will be pleased with their product purchase and more likely to make additional purchases.
- ***Profitably***. Profitability is a relatively simple term: it’s when a company’s revenue is greater than its expenses. In terms of marketing, the road to profitability means adding value to a product so that the price customers pay is greater than the cost of making the product (Tutor2u, 2021).

Marketing in Practice: Reconciling Segmentation and Diversity

We live in a multicultural world where **diversity**, **equity**, **inclusion**, and **belonging** (DEIB) is no longer the “right” thing to do; rather, it’s imperative. This is particularly true in marketing because, as the consumer population diversifies, brands must authentically reflect a wide range of backgrounds and life experiences to connect effectively with consumers. Therefore, marketers must increasingly respect individual preferences, celebrate differences, and promote customization of products and services to meet customers’ needs, wants, and preferences.

At the same time, to profitably produce and sell a viable product or service, marketers must identify potential customer groups and types with certain characteristics in common—i.e., market segmentation. Segmentation requires assigning individuals to predefined categories with predictable behaviors based on standardized assumptions.

How does segmentation differ from stereotyping? How can segmentation support diversity?

Read the following articles to explore these nuances further:

- Chron: “Difference Between Stereotyping & Market Segmentation”

- Retail Dive: "Segmentation is dead!"

Keep these questions in mind as you explore this book, where you will learn more about market segmentation, targeting, and positioning before exploring the considerations of marketing in a diverse Marketplace.

How Marketing Benefits the Organization, Its Interested Parties, and Society

Before we go on, let's consider all the people and groups an organization must consider and serve. Interested parties are those persons or entities that have an interest in a company's success or failure. These parties can be categorized into two types: internal and external (Figure 1.2). You may see these people and groups referred to as "stakeholders" in business writing and other media.

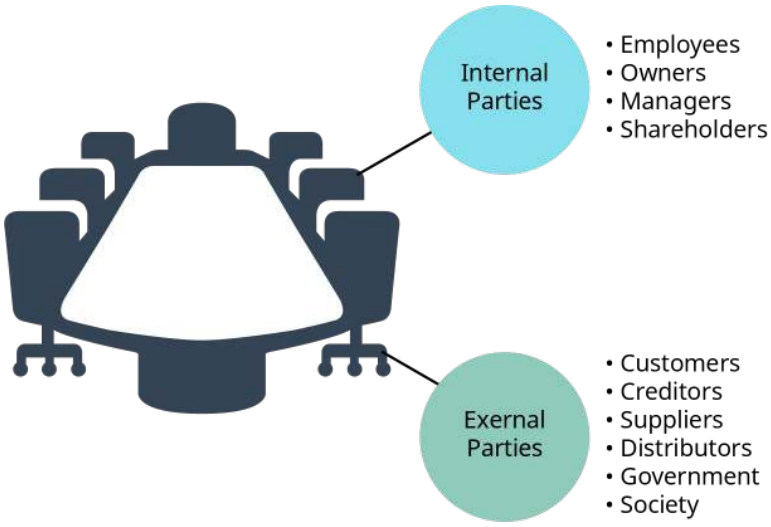


Figure 1.2 Types of Interested Parties (CC BY 4.0; Rice University & OpenStax)

Internal interested parties are entities that reside within the organization and that affect—or are affected by—the company's actions. These entities include employees, owners, managers, and investors (shareholders). When we think about marketing, marketers often tend to look outward. They build strategies to engage customers and show them what the company has to offer.

You might think that marketing would be primarily directed toward those outside the company, like customers, but marketing is also directed toward internal groups. Internal marketing involves promoting the objectives, products, and services of a company to its internal constituents—particularly employees (Martyn Bassett Associates, Inc., 2021).

Think about a recent interaction you have had with a business employee. It could be the server who took your order at lunch or the sales associate at a big box store who showed you the features of the new laptop you were looking to purchase. Which interactions left you with a positive experience? Chances are that your evaluation of the experience is based on your interaction with the server or sales associate. That's a function and benefit of good internal marketing: employees who are motivated and empowered to deliver a satisfying customer experience.

External interested parties include those outside the company, such as customers, creditors, suppliers, distributors, and society. External groups don't have a direct say in the company's decision-making process. However, they are vital to the company's success because companies can only succeed with the support of others.

How does marketing benefit external parties? First, consider what marketing does for consumers. It draws out their needs, creates new demand, locates untapped opportunities, and determines the possibilities of selling new products. Second, marketing creates form, time, place, and possession utilities for the company's goods and services. Utility refers to a product's usefulness to customers so that they are convinced enough to make a purchase. In other words, when you hear "utility" in marketing, think "usefulness to customers."

Marketing creates several different types of utility:

- **Form utility**. Form utility refers to how well an organization can increase the value of its product in the customer's eyes by making changes and altering its physical appearance (Bhasin, 2020). For example, when you want a donut or a pastry, you don't want to buy the ingredients to make it; you want a donut in its final form so you can eat it. That's where the bakery and form

utility come into play. The bakery combines flour, sugar, eggs, and other ingredients to make the cakes, donuts, and pastries you purchase.

- **Time utility**. Marketing creates time utility when it makes products and services available to customers so that they can buy them when it is most convenient. Consider how many stores are open evenings, weekends, or even 24/7 to make it convenient for customers to shop there!
- **Place utility**. Marketing creates place utility when it makes goods or services physically available, convenient, and accessible to customers. Consider the ease a company like Uber Eats adds to your life when you're craving tacos in the middle of the night and you don't feel like getting dressed and driving to go get them. You can have your food delivered to you!
- **Possession utility**. Marketers facilitate possession utility by ensuring that a product is relatively easy to acquire. For example, many automobile manufacturers offer low (or sometimes no) interest rates on car loans to make it easy for you to walk out the door with a new set of car keys. Possession utility also encompasses the pride or satisfaction you get from owning a new product, such as a great-fitting pair of running shoes or a smartphone with all the features you've been wanting.

Marketing's primary benefit to society is that it drives the consumer economy. Marketing leads to increased sales and revenue for a business, which enables it to expand operations and create more internal and external jobs for partners such as suppliers. Marketing also contributes tax revenue to local, state, and federal governments, ultimately leading to overall economic growth.

The Marketing Process Defined

The marketing process refers to the series of steps that assist businesses in planning, analyzing, implementing, and adjusting their marketing strategy. Do an internet search for "steps in the marketing process," and you'll immediately see that some websites outline a 10-step process, whereas others propose a four-step or six-step process. For our purposes, we're going to use a five-step process.

Steps in the Marketing Process

The five-step process (see Figure 1.3) involves understanding the marketplace and customers, developing a marketing strategy, delivering value, growing customer relations, and capturing value from customers (iEduNote, 2020).



Figure 1.3 Steps in the Marketing Process (CC BY 4.0; Rice University & OpenStax)

Step 1: Understand Both the Marketplace and Customers

Before you can start the marketing process, you must have a good idea of what your marketplace looks like. This means answering some basic questions about your customers, like who they are, their income and purchasing power, and how much they're likely to spend (particularly on your products or services). If you decide to sell at lower prices to attain higher unit sales volume, your marketing strategy would look very different than if you decided to sell fewer products at a higher price.

Another way to approach this is to create separate brands and compete in both arenas. Consider Volkswagen. You might think immediately of the VW Beetle or the Jetta, but the company's brand portfolio extends beyond VW passenger cars and SUVs. It's also the parent company for Audi, Bentley, Lamborghini, Porsche, and others, and these vehicles sell at very different price points from those of VW passenger cars (Lindsay Volkswagen of Dulles, 2021).

Step 2: Develop a Customer-Driven Marketing Strategy

Marketing strategy refers to a business's overall "game plan" to focus its limited resources to reach prospective customers and turn them into paying customers, hopefully for the long run.

It's said that there are two basic types of marketing strategy: a product-driven, "build-it-and-they-will-come" strategy and a customer-driven strategy, in which you analyze prospective consumers and then—and only then—create something they want or need. We're going to focus on the latter strategy. What happens in a customer-driven marketing strategy is that the company shifts the focus from the product or service itself to its users. Customers' needs are the central focus and the point of beginning, not an afterthought. Your primary goal in a customer-driven marketing strategy is to determine what users want and/or need and then satisfy those users. Instead of being product-centric, it's about being customer-centric and developing a mutually beneficial relationship with customers (Khlystova, 2019).

In a nutshell, it's about establishing a connection and a relationship. It's about understanding who your customers are, what their needs and wants are, and how you can best meet those needs and wants. It's about knowing your target market better than your competitors and creating a strong value proposition for those users—a promise of value that communicates the benefits of your company's products or services. In short, it's what makes your product or service desirable to potential customers, helps them understand why they should buy it, how your company's product or service differs from those of its competitors, and how your offerings are superior to similar offerings from your competitors (CFI Team, n.d.)

Step 3: Deliver High Customer Value

Customers have myriad buying options and alternatives today. Given that, how can a company attract and—even more importantly—retain its customers? The answer is relatively simple: you give them value for their money. By definition, customer value is the ratio between the perceived benefits and costs incurred by the customer in acquiring your products or services.

The mathematical formula is simple:

$$\text{Value} = \frac{\text{Benefits}}{\text{Price}} \qquad \left(V = B/P\right)$$

But "value" from the customer's perspective is a complex term because we're really considering four different value types:

- Functional value: what the product "does" for the customer in terms of solving a particular want or need
- Monetary value: what the product actually costs relative to its perceived worth
- Social value: how much owning the product allows the customer to connect with others
- Psychological value: how much that product allows the customer to "feel better" (Boedecker, 2020)

Value is increased by boosting the benefits (in the form of product, place, or promotion) or minimizing the price.

Step 4: Grow Profitable Customer Relations

The bottom line is that profitable customer relationships are the "secret sauce" of any business. This step in the marketing process is where marketers acquire, keep, and grow customer relationships. Successful marketers know that acquiring customers is one of the hardest (not to mention one of the most expensive) elements of marketing. However, when you know clearly who those potential customers are, you can more effectively determine how to reach them, thus maximizing your marketing dollars.

It isn't enough to have a one-and-done sale. You want repeat buyers, so marketers must remind customers about the company's products and/or services and how those products and services have met their needs and improved their lives so they make repeat

purchases. Marketers must consider how to reach customers about their offerings and make it easy and convenient for those customers to make continued purchases.

When customers have a positive relationship with a company or its products or services, they're more likely to become repeat buyers. Satisfied customers are also more likely to be interested in buying additional products or services from your company, and they tend to recommend products to others, further reducing the company's costs of getting new customers (Traynor, 2019).

Step 5: Capture Customer Value in the Form of Profits

The goal of successful customer relationship management (CRM) is creating high customer equity—the potential profits a company earns from its current and potential customers. It's a relatively simple concept: increasing customer loyalty results in higher customer equity.

Increasing customer equity is the goal of marketers because it's a bellwether for financial success. Think about it in simple terms: the higher a company's customer equity, the more profit the company generates, and the more valuable that company (and its products or services) becomes on the market (SendPulse, n.d.).

Careers In Marketing: Marketing Jobs

In every chapter of this book, you'll find this Careers in Marketing section. It's meant to outline various jobs so you can be well informed about all the things marketers do. These sections will outline various job roles, what you do day-to-day, qualifications needed, and sometimes even salary information.

If you've decided you want a job in marketing, it's important to know what kinds of jobs exist and what's expected in each role. Google and YouTube searches will bring you all kinds of information. You should check out the insights from people in these roles and maybe even connect with them to ask them questions. Please do your homework and determine what you like to do with your day, what you're good at, and how to build a network to find the right job for you.

Here are a handful of resources to get your thinking started:

- HubSpot: "How to Start Your Marketing Career When You Know Nothing About Marketing"
- Setup: "The Marketing Career Path: From Entry-Level to Chief Marketing Officer"
- Coursera: "Your Guide to Landing an Entry-Level Marketing Job"
- Skillshare: "12 Entry-Level Marketing Jobs You Can Pursue Right Now"
- Indeed: "Entry Level Marketing Salary in the United States"

Whatever job role you choose, marketing is a creative, interesting, and, at times, exciting role where you can make a real impact on people's lives. Enjoy!

Knowledge Check

It's time to check your knowledge of the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Coca-Cola's mission is to refresh the world. To that end, it has ensured that you can buy a Coke product at numerous location (vending machines, convenience stores, restaurant fountains, stadiums, etc.). What type of utility has marketing created through this process?

a. Form utility
b. Time utility
c. Place utility
d. Possession utility

2.

Which of the following provides the most complete definition of marketing?

a. Marketing creates value.

b. Marketing comprises every process involved in moving a product or service from your organization to the consumer.
c. Marketing includes distribution decisions.
d. Marketing is about building relationships.

3.

Which of the following is not an external interested party?

a. Employees
b. Customers
c. Suppliers
d. Society

4.

The total potential profits a company earns from its current and potential customers is known as _____.

a. customer equity
b. the value proposition
c. customer value
d. the marketing process

5.

At which step in the marketing process would the lifetime values to a company's customers be considered?

a. Developing a customer-driven marketing strategy
b. Delivering high customer value
c. Growing profitable customer relations
d. Capturing value from customers

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1.3: The Marketing Mix and the 4Ps of Marketing

Learning Objectives

By the end of this section, you will be able to

- Define and describe the marketing mix.
- List and explain the 4Ps of marketing.

Marketing Mix Defined

Having a great product or service is just the first step in establishing a successful business or building a successful brand. The best product or service in the world won't translate to profits unless people know about it. How do you reach customers and help them connect with your product? That's the role of the marketing mix.

The marketing mix is commonly referred to as the tactics a company can use to promote its products or services in the market to influence consumers to buy. The marketing mix is also known as the 4Ps: product, price, place, and promotion (see Figure 1.4). Let's take a closer look.

- The *product* is the good or service that the company provides.
- The *price* is what the consumer pays in exchange for the product.
- The *place* is where the product is purchased.
- *Promotion* consists of advertising, sales, and other communication efforts the company utilizes to attract customers.



Figure 1.4 The Marketing Mix and the 4Ps of Marketing (CC BY 4.0; Rice University & OpenStax)

The 4Ps of Marketing

Up to this point, we have been talking about marketing in a somewhat abstract manner. Instead of continuing with a theoretical discussion of the marketing mix and the 4Ps of marketing, we will approach these topics using an example of a product you probably already own—a backpack. Let's get started.

Product

Remember, product refers to a good or service that a company offers to its customers. Let's consider a product that many of you likely own as college students: a backpack (Figure 1.5).



Figure 1.5 Marketing analyzes customer product needs to determine new product models or features that customers would value, such as a padded computer sleeve in a backpack for students. (credit: "Incase Backpacks" by albertoziveri/flickr, CC BY 2.0)

In terms of the first of the 4Ps, marketing analyzes the needs of consumers who buy backpacks and decides if they want more and/or different bags. For example, marketing will analyze what features consumers want in the bag. Do they want a water bottle pocket, padded shoulder straps, reflective tape, a padded laptop sleeve, or organizer pockets? Think about your own bag for a moment: why did you buy this particular product? What features did it have that made it appealing to you?

Armed with market research knowledge, marketing then attempts to predict what types of backpacks different consumers will want and which of these consumers they will try to satisfy. For example, are you selling bags to adults for their children's use? Are you selling them to young adults who might want more (or different) graphics on the bag? Are you selling to adults who will use these bags for work or school?

Marketing will then estimate how many consumers will purchase backpacks over the next several years and how many bags they'll likely purchase. Marketing will also estimate how many competitors will produce backpacks, how many they'll produce, and what types.

Price

Price is the amount consumers pay for a product or service. There's a delicate balance here. On one hand, marketers must link the price to the product's real or perceived benefits while at the same time taking into consideration factors like production costs, seasonal and distributor discounts, and pricing product lines and different models within the line.

Marketers attempt to estimate how much consumers are willing to pay for the backpack and—perhaps more importantly—if the company can make a profit selling at that price. Pricing products or services can be both an art and a science. In the case of our backpack example, the company wants to determine two things:

- What's the minimum price the company can charge for the backpack and still make a profit?
- What's the maximum price the company can charge for the backpack without losing customers?

The "correct" answer usually lies somewhere in between those points on the price continuum.

Promotion

Promotion includes advertising, public relations, and many other promotional strategies, including television and print advertisements, internet and social media advertising, and trade shows. A company's promotional efforts must increase awareness of the product and articulate the reasons why customers should purchase their product. Remember: the goal of any promotional activity is to reach the "right" consumers at the right time and the right place.

In terms of our backpack example, marketing now needs to decide which kinds of promotional strategies should be used to tell potential customers about the company's backpacks. For instance, should you use TV advertisements to make customers aware of the backpack? If so, you'll want to run your commercials during programs your target audience watches. For example, if you're

selling backpacks to children (or trying to entice them to badger their parents to purchase them), children's cartoons may be the most cost-effective avenue to reach your target market. If your backpacks are designed for work or school, you'll likely decide to advertise on television programs that target younger adults.

Link to Learning: Netflix, JanSport, and *Stranger Things*

A real-world promotional example is the recent brand partnership between Netflix and JanSport, the backpack company. These two companies collaborated on a *Stranger Things*-branded backpack with the launch of the fourth season of *Stranger Things* in 2022. This collaboration created five Hawkins-inspired backpacks centered on various *Stranger Things* themes. Read more about this promotion and see the backpacks here.

Perhaps you'll decide to run magazine print ads. If so, you'll need to decide which magazines you'll place the ads in. Most magazines have a very specific readership demographic consisting of factors such as age, gender, and interests. If you plan to advertise those backpacks with print ads, you'll want to leverage readership demographics to ensure that your message is being seen by the right consumers—those who are most likely to buy your backpacks (Gaebler Ventures, 2022).

What about internet advertising? Internet advertising (sometimes known as online advertising or digital advertising) is a promotional strategy in which the company utilizes the internet as a medium to deliver its marketing messages. If you plan to go the digital route, what types of internet advertising will you use? Search engine marketing? Email marketing? Social media ads? TikTok videos?

Place

Place considerations focus on how and where to deliver the product to the consumer most likely to buy it. Where did you buy your backpack? Did you buy it in a big box store, online, in an office products store, or perhaps even in the school bookstore? Once again, through market research, marketers determine where potential customers will be and how to get the company's backpacks to them.

One important factor to note about the importance of place in the marketing mix is that it doesn't refer to the location of the company itself but rather to the location of the customers or potential customers. Place deals with strategies the marketer can employ to get those backpacks from their present location—a warehouse, for example—to the customers' location.

Knowledge Check

It's time to check your knowledge of the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Which of the following is NOT one of the 4Ps of marketing?

a. Product
b. Price
c. Place
d. Positioning

2.

Which of the 4Ps focuses on determining how much consumers would be willing to pay for a product or service?

a. Product
b. Price
c. Place
d. Promotion

3.

Which of the 4Ps of marketing focuses on how and where to deliver the product to the consumer most likely to buy it?

a. Product
b. Price
c. Place
d. Promotion

4.

DiJuan, a marketer for a soft drink company, ensures that his company's products are available in numerous locations—vending machines, convenience stores, restaurants, and supermarkets. Which element of the 4Ps is DiJuan addressing?

a. Product
b. Price
c. Promotion
d. Place

5.

You're a marketer trying to determine which trade shows you might want to include in your marketing mix. Which element of the marketing mix would address this concern?

a. Product
b. Price
c. Place
d. Promotion

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1.4: Factors Comprising and Affecting the Marketing Environment

Learning Objectives

By the end of this section, you will be able to

- Define and describe the marketing environment.
- Explain the components of the marketing environment.
- Identify and describe the internal factors of the marketing environment.
- List and describe the components of the micro- and macroenvironments.

The Marketing Environment Defined

Organizations don't operate in a vacuum. They're not self-contained, self-sufficient machines; rather, they are complex systems that require interaction with facets of both their internal and external environments to survive and prosper. In this section, we explore the internal and external factors that drive an organization's marketing activities.

The marketing environment comprises both the external and internal factors and forces that influence an organization's decision regarding its marketing activities. Some of these factors—internal factors— are within the organization's control. Other factors—external factors—are outside the organization's control. We'll explore these in more depth below.

To illustrate this concept of internal and external factors and forces, think about your body as an organization. Your body is composed of internal organs and systems, such as your heart, lungs, and digestive system. These organs and systems function both independently and interdependently to keep your body going. The same is true with a business. The systems of the business are the people and departments that make up the internal organization (such as marketing, accounting, human resources, etc.). And just like the human body, these systems function independently and interdependently.

At the same time, your body is exposed to external influences, like expectations from your family and friends, cultural or gender stereotypes, and family responsibilities, that influence decision-making in either a positive or negative way. The same is true of the marketing activities of a business. They're influenced by factors both from the macroenvironment and the microenvironment. Let's take a closer look at these factors.

The Components of the Marketing Environment

As we'll explore below, the internal environment is company-specific and includes the 5M framework and organizational culture. The external environment is subdivided into two components: the microenvironment (or task environment) and the macroenvironment (or broad environment), as illustrated in Figure 1.6.

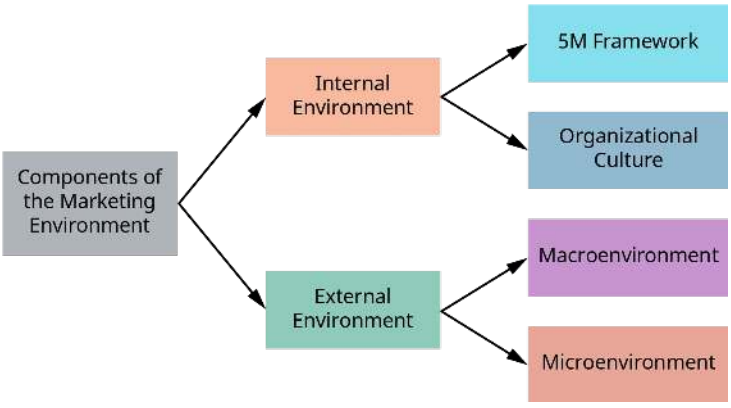


Figure 1.6 The Components of the Marketing Environment (CC BY 4.0; Rice University & OpenStax)

Components of the Internal Environment

The internal environment in marketing refers to those elements *within* the organization that define the atmosphere within the company's structure. These factors include what are known as the 5Ms of marketing and organizational culture.

The 5Ms of marketing (sometimes also called the 5M framework) is a marketing/management model that defines the elements of a marketing strategy that must be addressed for an organization to succeed. The five elements (sometimes known as the organization's assets) include minds, minutes, machinery, materials, and money (Oxford College of Marketing, 2023). Let's take a closer look at each of these factors:

- **Minds (Staffing):** This "M" might well be considered the most important factor because it consists of people who make sure the rest of the 5Ms are utilized productively to achieve the organization's goals (Oxford College of Marketing, 2023).
- **Minutes (Time):** Time is another valuable asset. We've all heard the saying that time is money, and this is true within the marketing arena. For example, in formulating and implementing a new strategy, marketing must assess factors such as whether existing production processes are as efficient and effective as they can be, how long it takes the organization to introduce a new product to the market, and how responsive the organization is to competitive pressures (Oxford College of Marketing, 2023).
- **Machinery (Equipment):** Machinery consists of the equipment and/or physical assets used to process materials into finished or semi-finished products.
- **Materials (Production):** Materials consist of the inputs needed to produce goods and services.
- **Money (Finance):** Perhaps second only to staffing, money is a critical resource because it is used to acquire and/or hire other resources.

Organizational culture comprises the shared values, attitudes, expectations, norms, and practices that guide the actions of all within the company. Think about organizational culture as "the way we do things around here," and the culture can help or hinder an organization. For example, a good culture embodies positive traits that lead to improved performance and profit. On the other hand, a dysfunctional culture that's toxic and/or inefficient can hinder even the most successful organization (Wong, 2020).

For an example of a positive organizational culture, consider Zappos, where happiness is a core value. Founder Tony Hsieh wrote a book on the topic and has said, "We're willing to give up short-term profits or revenue growth to make sure we have the best culture" (Razzetti, 2019). Hsieh was not afraid to put his money where his mouth was, either. To maintain an outstanding company culture and a productive workforce, he instituted a policy to pay new, unhappy employees $2,000 to quit following their four-week training period (Canales, 2020).

By contrast, consider what a dysfunctional culture can do to an organization. During the summer of 2020, *The Ellen DeGeneres Show* was called out for having a toxic work environment. Eleven employees spoke out publicly about the negative organizational culture. There were allegations of sexual misconduct, intimidation, and racism (Yandoli, 2021). Ratings faltered because of the allegations, and DeGeneres ultimately decided to end her daytime talk show.

But how does organizational culture impact marketing? Here are three very tangible ways that your company's culture can make a positive impact on marketing:

- Branding and marketing efforts emanate from the organization's core values and culture and guide the organization's marketing message. Therefore, if your marketing message doesn't match the reality of the business, it's akin to that old adage about "putting lipstick on a pig" (Click, 2016). You're talking the talk but not walking the walk.
- A strong culture strengthens your marketing message because it gives prospective customers a better idea of the values of your business, and customers who know what you believe and value are much more likely to do business with you. For example, research has demonstrated that 86 percent of buyers are willing to pay more for a positive customer service experience (Kulbytė, 2021). Once again, think about the culture at Zappos. One way the company has developed a strong following of loyal customers is through its policy that call-center employees are empowered to do "whatever it takes" to make the customer happy. Call center employees don't use scripts for calls, and there are no time limits on calls (Taylor, 2008).
- A strong organizational culture is also key in attracting and retaining employees. In his quest for a happier, more positive work environment, Hsieh implemented several policies at Zappos that he felt contributed to this environment, including a relaxed dress code, discounted food and drink, relaxation areas, and more (Young, 2019). TOMS (featured in Companies with a Conscience later in this chapter) is another excellent example of a strong organizational culture.

Components of the External Environment

The external marketing environment contains two elements: the microenvironment and the macro-environment. Although the factors within these environments are not directly within the marketer's control, they still influence the decisions marketers make. We'll first examine the factors in the microenvironment, as shown in Figure 1.7.

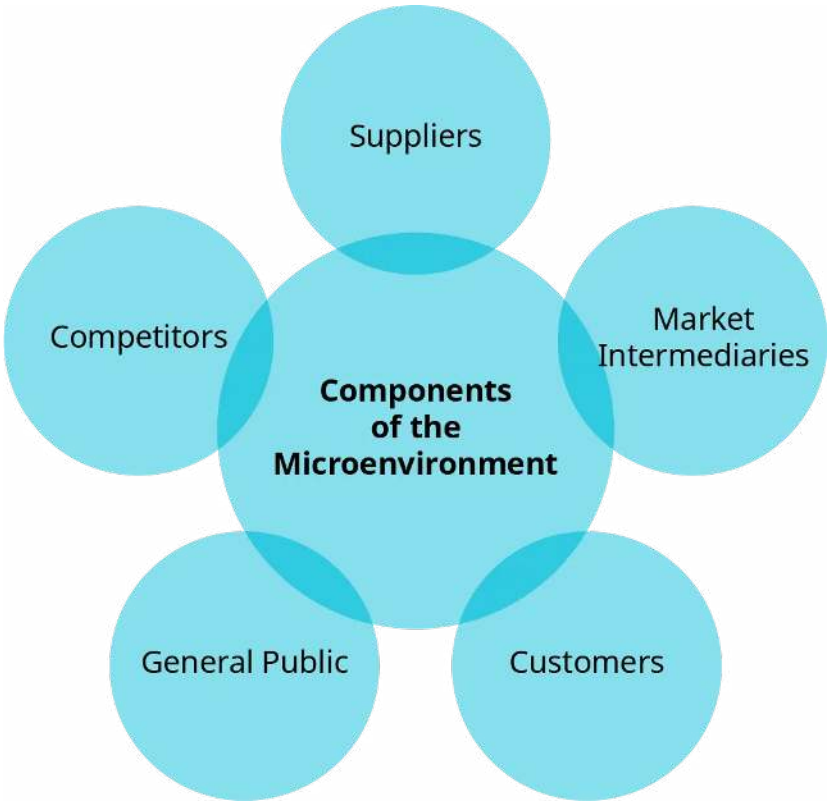


Figure 1.7 Components of the Microenvironment (CC BY 4.0; Rice University & OpenStax)

The microenvironment consists of five predominant factors.

- **Suppliers**. Suppliers (sometimes also called *vendors*) are those partners from whom we receive the parts and products necessary for our business. Let's assume that your company produces microwave ovens. Some of your suppliers may be providers of transformers, the turntable, control panels, and magnetrons. As long as you have options regarding the component suppliers, each supplier's bargaining power is relatively weak. However, if two suppliers merge and decide to raise the price of the component the new entity supplies, that vendor now wields increased power.
- **Market Intermediaries.** Often, products are distributed by third-party sellers such as retailers, wholesalers, and others in the distribution channel. The reputation of these market intermediaries plays an important role in the marketing of the product or service, both positive and negative, so companies must select and monitor market intermediaries on an ongoing basis. We'll learn more about the roles of these intermediaries in Distribution: Delivering Customer Value, but let's provide a couple of definitions and examples to help you better understand some of the parties in the distribution channel. Retailers (like Walmart or Target) purchase large quantities of goods from producers and then sell smaller quantities to end customers for personal use or consumption. Wholesalers purchase large quantities of products from producers and then sell to smaller businesses, such as retail stores. A good example of a wholesaler is Gexpro, which sells electrical supplies for the construction industry.
- **Customers.** Understanding who your customers are will enable you to reach them effectively, whether online, locally in retail stores, or internationally.
- **Competitors.** Successful marketing strategies must be implemented after consideration of your competition. Knowing who your competition is and what they are and are not offering allows you to find the gap in the market. You want to be where the competition is not, at least in the sense of offering something unique to a targeted market.
- **General Public**. Because companies provide their offerings to communities that support them, they have an obligation to satisfy those communities. There's an old saying that "perception is reality," so marketers' actions must be evaluated through the perceptual lens of those communities because the public's perception of you—your reputation—is essential to your success (Oxford College of Marketing, 2023).

Components of the Macro-environment

Obviously, marketers can't ignore what's going on in the external environment. One tool used by companies to assess the environment in which they are operating is a PESTLE analysis. PESTLE is an acronym for political, economic, social, technological, legal, and environmental factors that provide marketers with a comprehensive view of the whole environment from multiple angles (PESTLE Analysis, 2023). These macro-environment factors can be used to understand current external influences so that marketers can more easily identify what might change in the future, mitigate the identified risks, and take advantage of competitive opportunities (see Figure 1.8).

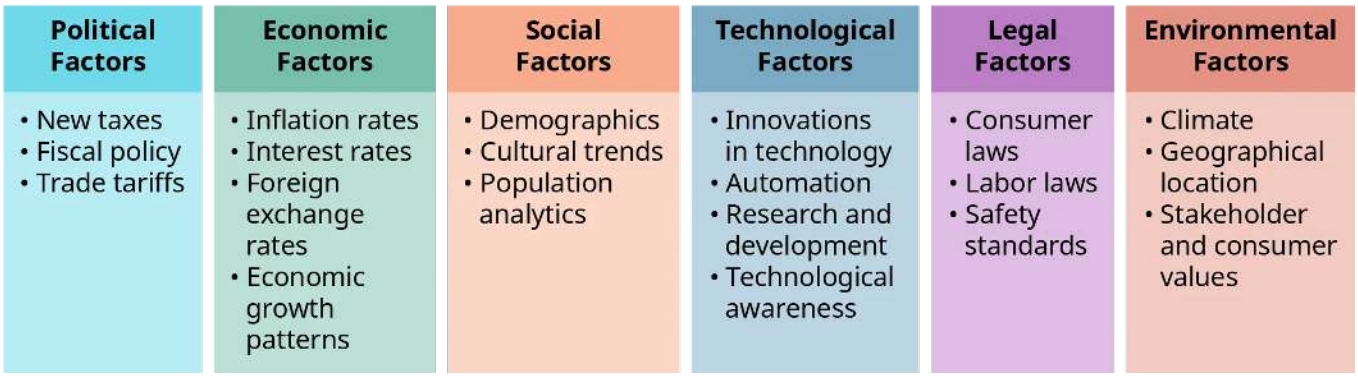


Figure 1.8 PESTLE Factors (CC BY 4.0; Rice University & OpenStax)

Let's look at these factors more closely:

- **Political Factors.** These factors include environmental and trade restrictions, political stability, and business policy. For example, Tesla announced in late 2021 that it is moving its headquarters out of California to Texas, following similar announcements by Hewlett Packard Enterprise (HPE) and Oracle, citing such things as lower housing costs and tax rates and fewer regulations, making it easier for companies to operate in Texas.
- **Economic Factors.** Economic factors play a huge role in terms of a company's prospects in a market. For example, economic factors affect pricing and can even influence the supply/demand curve for a product or service. For example, high inflation causes consumers to have less spending power, which translates into lower sales and revenue. In 2022, consumers experienced both product shortages and higher prices, blamed largely on COVID-19, Russia's war on Ukraine, and the availability of certain commodities, such as corn, sunflower oil, and wheat (Cerullo, 2022).
- **Social Factors.** Social factors take in a wide swath of elements, such as cultural norms and expectations, health consciousness, population growth/decline, the age distribution of a population, and even career attitudes. Let's take one of these factors—age distribution—and examine how it impacts marketing. Baby boomers (born between 1946 and 1964) comprise approximately a quarter of the US population. It's largely as a result of this group's aging and retirement that active adult communities such as Del Webb and others have sprung up across the nation (Logan & LaRue, 2019).
- **Technological Factors.** These factors encompass the innovations and developments in technology that impact an organization's operations, as well as the rate of technological change. For example, look at one simple technological change with which we've all become comfortable in the public arena over the past decade or so: free Wi-Fi. Starbucks was able to take advantage of this change, and reposition its coffeehouses, and differentiate itself from competitors by offering free Wi-Fi (Makos, 2024).
- **Legal Factors.** These factors include changes to legislation impacting employment, industry regulation, licenses and permits, and intellectual property.
- **Environmental Factors.** In the context of a PESTLE analysis, environmental factors refer to variables affecting the physical environment, like climate change, pollution, the scarcity of raw materials, and the growing concern over companies' carbon footprints.

Knowledge Check

It's time to check your knowledge of the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

The extent to which the supply chain adds value to our marketing strategy is best addressed by our evaluation of which of the 5Ms?

a. Materials
b. Money
c. Machinery
d. Minutes

2.

_____ consist of third-party sellers such as retailers, wholesalers, and other resellers in the distribution channel.

a. Suppliers
b. Market intermediaries
c. Partners
d. Customers

3.

If you wanted to fill a gap in the marketplace, you would have to carefully consider _____ to see what is already available on the market.

a. the competition
b. the customers
c. the public
d. the resellers

4.

Which of the domains of the macroenvironment are most likely to be responsible for cutting-edge innovations?

a. Economic
b. Technological
c. Political and legal
d. Social and cultural

5.

You want to target a market more narrowly than simply using demographic data. You are also considering segmenting on people's attitudes and interests. Which domain of the macroenvironment is most likely to be a relevant data source for your decision-making?

a. Economic factors
b. Natural factors
c. Political and legal factors
d. Social factors

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1.5: Evolution of the Marketing Concept

Learning Objectives

By the end of this section, you will be able to

- Describe the production concept.
- Define the product concept.
- Discuss the selling concept.
- Explain the marketing concept.
- Summarize the societal marketing concept and its features.

The Evolution of Marketing

So now you've gotten the bird's-eye view of marketing as a practice, and you now know what marketing is. However, let's take a trip back through time to look at the evolution of marketing practices and how many of today's marketing strategies came to be. As you can see from Figure 1.9, and to use an old TV commercial tagline, you've come a long way, baby!

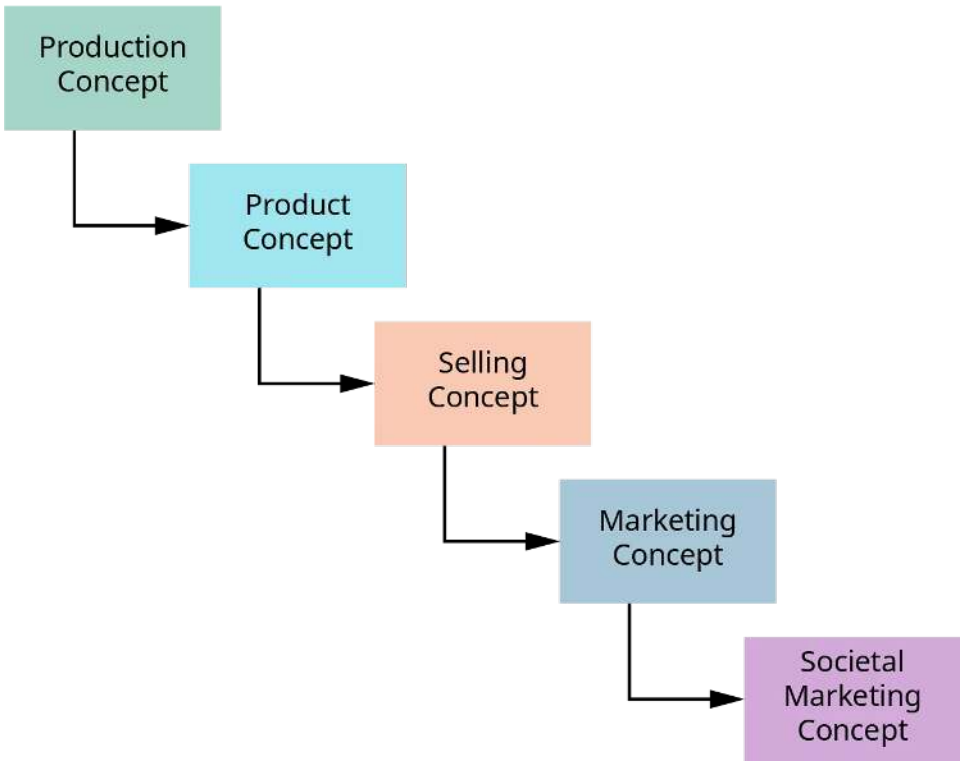


Figure 1.9 Evolution of Marketing (CC BY 4.0; Rice University & OpenStax)

The Production Concept

To understand the production concept, it's important first to understand the history of technology and mass production. Spurred on by using steam power, the Industrial Revolution began in the United States by the middle of the 19th century. Although much of the population was still employed in agriculture, the expansion of commerce and industry drew millions of factory workers into cities and towns. Suddenly, an abundance of manufactured goods was available to households at a rate never experienced before.

The production concept assumed that consumers were mostly interested in product availability and price, not necessarily product features. As a result, companies concentrated on high production, low costs, and mass distribution. In other words, to use the oft-used line from the movie *Field of Dreams*, "If you build it, they will come." People were so hungry for mass-produced goods that companies didn't have to do a lot of sales or marketing. The production concept is thought to have lasted from just after the Civil War (1861–1865) until the 1920s (OpExWorks Solutions, 2022). For example, inventor Samuel Colt's company began mass-

producing revolvers in 1835. The Waltham Watch Company (founded in 1850 in Waltham, MA) was the first to use division of labor to mass-produce watches and clocks.

The Product Concept

From the 1920s until the 1950s, the product concept dominated. With product availability a thing of the past, consumers began to favor products that offered quality, performance, and/or innovative features. As a result, companies concentrated on making superior products and improving them over time. One problem with this type of thinking is that marketers may fall in love with a product (known as "marketing myopia") and may not realize what the market truly wants or needs. Consider how railroad marketers overlooked the growing competition from airlines, buses, and automobiles. In his book *Marketing Myopia*, author Theodore Levitt writes, "The railroads did not stop growing because the need for passenger and freight transportation declined. That grew. The railroads are in trouble today not because that need was filled by others (cars, trucks, airplanes and even telephones) but because it was not filled by the railroads themselves. They let others take customers away from them because they assumed themselves to be in the railroad business rather than in the transportation business" (Levitt, 2008).

Link to Learning: The Reckoning

When American cars developed a reputation for not being reliable, this opened an opportunity for Toyota and other Japanese exporters in the late 1960s and 1970s. Learn more about this issue from David Halberstam's 1986 book *The Reckoning*. Read the *New York Times* 1986 review of this book.

The Sales Concept

By the 1950s, mass production had become the norm rather than the exception. Competition had increased over the years, and there was little unfulfilled demand in the marketplace. Marketing evolved from simply producing products that customers wanted to trying to persuade customers to buy through advertising and personal selling. The basic premise of the sales concept was that consumers and businesses needed to be "coaxed" into buying, and companies aimed to sell what they made rather than make what consumers wanted.

The Marketing Concept

The marketing concept was built on the premise that an organization will achieve its goals when it satisfies the needs and wants of the consumer. As a result, firms began to focus on customer needs *before* developing products rather than developing products and then trying to "sell" them to consumers. The marketing concept was also the start of relationship marketing— fostering long-term relationships with customers to ensure repeat sales and achieve stable relationships and reduced costs.

The Societal Marketing Concept

In a nutshell, the societal marketing concept is simple. Companies make good marketing decisions by considering not only consumers' wants and needs but also the balance between those wants and needs, the company's capabilities, and society's long-term interests. The concept emphasizes the social responsibilities that companies bear. This means meeting consumers' and businesses' current needs while simultaneously being aware of the environmental impact of marketing decisions on future generations' ability to meet their needs (iEduNote, 2021).

Knowledge Check

It's time to check your knowledge of the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

The product concept focuses on _____.

a. the quality of the product a company intends to sell
b. the operations of manufacturing the product a company intends to sell
c. the selling strategies a company will use to sell the product
d. the needs of the customer

2.

Which marketing era or concept is most closely related to sustainability and environmental consciousness?

a. Production concept
b. Marketing concept
c. Societal marketing concept
d. Sales concept

3.

During which marketing era concept would companies not only produce products but also try to persuade customers through advertising and personal selling to purchase those products?

a. Production concept
b. Product concept
c. Selling concept
d. Marketing concept

4.

Which of the following accurately represents the evolution of marketing?

a. Production, product, sales, marketing, societal
b. Product, sales, production, marketing, societal
c. Marketing, production, sales, societal, product
d. Societal, production, sales, marketing, product

5.

During the societal marketing concept, _____.

a. customers' wants and needs were first identified as essential
b. trustfulness, honesty, and transparency became the most important
c. promotional efforts to move inventory were essential
d. the customer was the focus

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1.6: Determining Consumer Needs and Wants

Learning Objectives

By the end of this section, you will be able to:

- Explain how an organization identifies consumer needs and wants.
- Describe the process through which an organization satisfies consumer needs and wants.

Identifying Consumer Needs and Wants

We've repeatedly mentioned satisfying customer needs. But understanding those needs and wants isn't always as simple as it sounds. For example, some customers have which they're not fully aware; others can't articulate their needs, or the words require some degree of interpretation. Consider this: what does it mean when a customer asks for a "restful" hotel, an "attractive" bathing suit, or a "powerful" lawn mower?

Let's consider an example to illustrate this concept. A customer comes into your car dealership and says she wants to purchase an inexpensive hybrid vehicle. That description is broad and subject to interpretation, so it's essential that the marketer probe further because there are really five types of customer needs (MBA Skool Team, 2021).

- **Stated Needs**. Stated needs are those that the customer clearly specifies. It's what the customer requests. For example, you go into a big box store such as Best Buy and tell the sales associate you "need a new phone."
- **Real Needs**. Real needs are one level above stated needs; they are more specific and define the parameters that are immediate to defining and fulfilling the need. In other words, real needs are what the stated needs actually mean. What are our phone buyer's real needs? Are they looking for a phone with a long battery life, a high-resolution camera, or a lot of internal memory?
- **Unstated Needs**. Unstated needs are what the customer also expects but doesn't ask for. Once again, using our phone example, the consumer may expect but not express the desire for good service from the carrier and the big box store.
- **Delight Needs**. Delight needs are those that provide the "wow" factor. These needs, like unstated needs, can make some products more desirable than others if they meet those needs. In our phone example, delight needs can be, for example, a phone case or other promotional gift.
- **Secret Needs**. Secret needs are those that a customer may not state or realize but can be one of the main reasons for choosing a particular product to fulfill the basic stated need. Do customers want a new cell phone as a status symbol but won't admit that status is important to them?

The bottom line is that responding only to a customer's stated need may not satisfy the customer. The marketer needs to understand what the customer really wants.

Satisfying Consumer Needs and Wants

You may be asking yourself at this point, "Does marketing satisfy needs, or does it create needs?" Some people feel that marketing creates needs and pressures consumers into buying unneeded products or services. However, marketing does not create needs; rather, it opens consumers' eyes to their wants, and it's up to marketers to understand those wants in order to guide consumers on the path to purchasing their products or services (Ferrer, 2015). Marketing creates value, and value speaks to the satisfaction of customer needs and the benefits customers receive from the product. It's the customer, however, who ultimately determines how well the product fulfills their needs and how much value the product creates.

The challenge for the marketing team is succinctly and compellingly articulating a value proposition that speaks directly to the benefits your product or service delivers.

The Value Proposition

A value proposition identifies the quantifiable benefits that customers can expect when they choose to purchase your company's product or service. A value proposition is, in effect, a promise from the company to the customer, and it can serve as a competitive differentiator to motivate customers to purchase your company's products or services. In other words, your value proposition should bring together in a brief, concise statement what your customer wants and/or needs and how your product or service will meet those wants and needs better than your competitors (ProductPlan, 2021).

That's a bit abstract, so we thought we'd include a few examples of some good value propositions:

- Bill Ragan Roofing: "Let us take the stress of roof repairs or a roof replacement off your shoulders."
- DuckDuckGo: "Tired of being tracked online? We can help."
- HelloFresh: "Take the stress out of mealtime."

The Exchange Process

Marketing facilitates what is known as the exchange process—the act of obtaining a desired product or service from an individual or business by providing in return something of value, as illustrated in Figure 1.10.

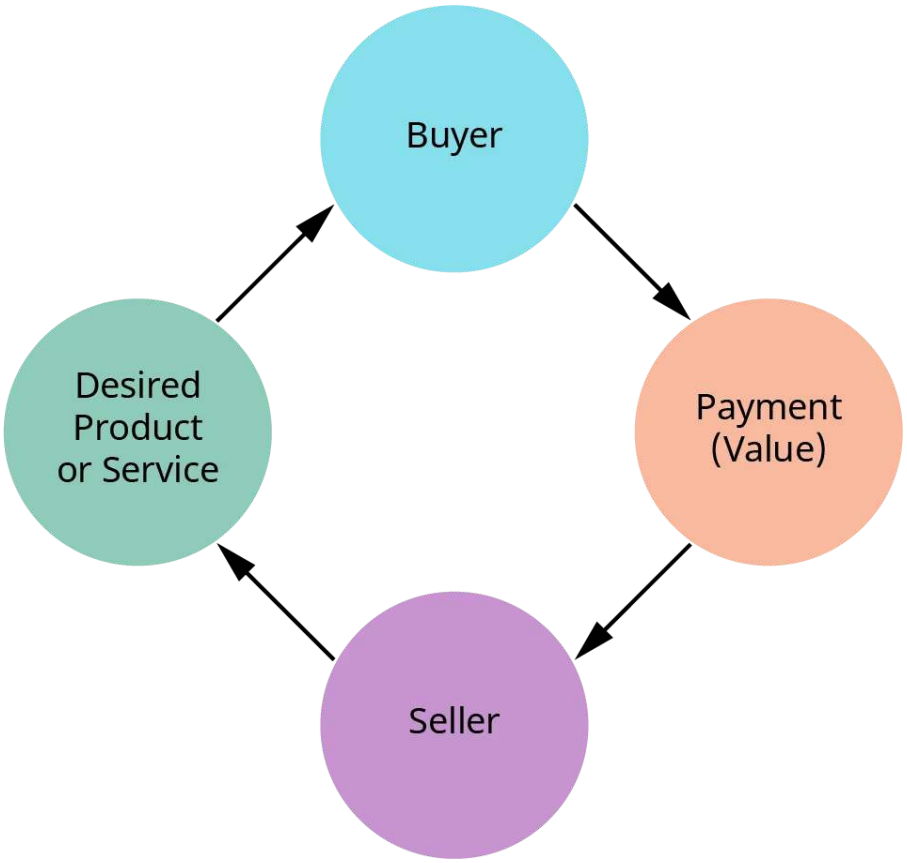


Figure 1.10 The Exchange Process (CC BY 4.0; Rice University & OpenStax)

The buyer (or customer) initiates the exchange process. The buyer (who has a want or need) is the individual or business willing to pay money or provide other personal resources to satisfy this need or want. Let's simplify that definition with an example. When lunchtime rolls around and you're on campus or at your job, you're hungry; you have a need for food and drink. You go to the dining hall or a nearby restaurant to order lunch, and you're willing to pay money in exchange for your meal. Simple, right?

Keep in mind here, however, that there is a difference between a customer and a consumer. The customer is the individual or business purchasing the product or service. The consumer is the user of the product or service. To put this concept in simple terms, if a grandmother buys a toy for her grandson, she is the customer; her grandson (who will use the product) is the consumer. When you go out for lunch, you're both the customer and the consumer.

The desired object is the product or service itself. It may be a physical good, service, or experience that consumers expect will satisfy their wants and/or needs. Let's go back to our lunch example. The desired object is the meal. The seller is the individual or organization supplying the need-satisfying product, service, or experience. Once again, in the lunch example, the seller would be the dining hall or the restaurant.

Inherent in the exchange process is what's known as value—the benefit to the customer or consumer relative to the cost in the exchange. In other words, value is the monetary worth of the benefits the customer receives in exchange for the product or service. Let's go back to our backpack example a few sections ago. You may really want that backpack because it keeps your "stuff"

organized and it's lightweight (the benefits), but if the cost is too high, either in terms of the monetary cost or the time you'd have to spend going to the store to buy it, that backpack won't have value for you. No sale!

Knowledge Check

It's time to check your knowledge of the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

_____ needs are those that provide the "wow" factor in a customer's purchase.

a. Stated
b. Real
c. Unstated
d. Delight

2.

In the exchange process, the _____ is the individual who purchases the product or service, and the _____ is the individual who actually uses the product or service.

a. buyer; seller
b. buyer; customer
c. customer; consumer
d. consumer, customer

3.

Which of the following terms refers to the promised value of a product or service?

a. Valuation
b. Value proposal
c. Value assessment
d. Value proposition

4.

_____ is/are the benefit(s) to the customer or consumer relative to the cost of the product or service.

a. Value
b. The exchange process
c. Stated needs
d. Expectations

5.

Which of the following best describes a satisfactory exchange process?

a. One that allows the seller to incur the highest profit possible
b. One that allows the buyer to pay the lowest price possible
c. One that fairly addresses the needs of both the seller and buyer
d. One that is most convenient without regard for either the seller or buyer

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1.7: Customer Relationship Management (CRM)

Learning Objectives

By the end of this section, you will be able to:

- Define customer relationship management (CRM).
- Describe the impact of CRM on customer loyalty and retention.
- Explain how CRM builds customer equity.

The Impact of CRM on Customer Loyalty and Retention

In the final analysis, companies want to accomplish two things: improve customer service relationships and improve customer retention. Retaining a loyal customer is typically easier and less expensive than acquiring a new one. One way to accomplish this is through customer relationship management (CRM), which is the means through which companies track, manage, and analyze customer interactions (Hashemi-Pour & Chai, n.d.).

Several CRM software systems are available in the marketplace, and most accomplish the same thing: track and work with data about customers. For example, they link and analyze customer contact information. They store and track contact with company representatives, such as phone calls, emails, live chat conversations, service requests, purchases, and returns. One good example of CRM software is Salesforce, the market leader for CRM software in North America, Western Europe, Latin America, and the Asia-Pacific region (Salesforce, 2021).

There are many types of CRM software; however, most CRM software focuses primarily on one of the following major categories:

- **Operational.** Operational CRM software deals with three types of operations: marketing, sales, and service automation. Operational CRM software is intended to assist businesses in automating how they approach leads and potential customers to convert those potential customers into actual customers (Bajpai, 2020).
- **Analytical**. Analytical CRM software is all about data management and analysis. The software is designed to collect, organize, and analyze the inputted data, providing management with insights needed to better understand market trends, understand customer needs and wants, and make data-driven strategic decisions (Bajpai, 2020).
- **Collaborative.** No business functions on an island. When businesses share customer data with one another, they gain insights and additional perspectives on customer behavior that is mutually beneficial. This collaboration allows each company to obtain information it would not otherwise have access to (Bajpai, 2020).

Before we explore how CRM impacts customer loyalty and retention, it's probably a good time for a few definitions. Customer loyalty is an ongoing positive relationship between a customer and a business. Customer loyalty is at the crux of repeat purchases of your product over those of your competitors. One common way to accomplish this is to offer reward/loyalty cards. For example, you may have a frequent flyer card from an airline, a loyalty card from Starbucks, or a retailer like Designer Shoe Warehouse (DSW) that rewards VIP customers with points for each purchase.

A closely related concept, customer retention, refers to a company's ability to transform new customers into returning customers. In its simplest terms, it's how you keep your customers coming back for more. Customer retention aims to reduce the number of customer defections, or those who buy your product at least once and then not again.

How does CRM impact customer loyalty and retention? Let's take a look at some of the ways Commerce CRM (2020) accomplishes this:

- **Leveraging Customer Data**. With CRM, a business can gather data on its existing and prospective customers to make their experience more positive. For example, you can keep track of important dates such as customer birthdays or purchase anniversaries, and CRM software can send automatic emails to them with coupons or other incentives.
- **Enhanced Customer Communications**. CRM software can be programmed to automatically send thank-you notes to customers, newsletters regarding new products, and customer satisfaction surveys or polls that enable you to glean more insight into your customers' levels of satisfaction with your product or service.

- **Ascertaining Customer Needs.** Fostering customer loyalty begins with understanding what your customers want and need. An effective CRM program can track customers' purchase history, habits, preferences, and even web and email interaction. From this information, you can gain valuable insights that will help you develop targeted marketing strategies.
- **Gathering Feedback.** We'd previously mentioned distributing customer surveys using your CRM software. This will provide you with valuable feedback not only about customers' perceptions of your product or service but also about their customer experiences. Have you ever received a message from Amazon after an online purchase, asking if you'd review the item you purchased? That's likely the result of an effective CRM system.
- **Managing Customer Loyalty Programs.** CRM software can help you identify prospective loyalty program members and track member rewards. Loyalty programs reward members for purchases and have been shown to increase customer retention. For example, according to research, approximately 84% of customers indicate that loyalty programs are an incentive to remain with a brand, and 66% report that the ability to earn rewards actually alters their spending behavior (Peacock, 2022).

The Role of CRM in Building Customer Equity

We have already talked about customer equity—the potential profit a company earns from all of its customers, both current and potential—and customer equity is a core CRM benchmark. CRM isn't a one-way communication street to customers. It's a two-way street allowing customers to define and shape offerings to address their requirements. This paves the way for open, honest dialogue that can ultimately benefit customers, thus resulting in higher customer equity.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Customer relationship management is accomplished by all of the following EXCEPT _____.

a. establishing and tracking customer interactions
b. finding ways of improving customer satisfaction from prior customer experiences
c. communicating with customers in a personalized way
d. offering the lowest price of all the companies on the market

2.

What is the process of managing customer information to maximize brand loyalty?

a. Marketing
b. Customer relationship management
c. Consumer retention management
d. Branding

3.

An ongoing positive relationship between a customer and a business is known as _____.

a. customer equity
b. customer loyalty
c. customer retention
d. customer lifetime value (CLV)

4.

Which type of customer relationship management (CRM) system would pool data from outside companies and organizations to create even better experiences for their customers?

a. Customer loyalty programs
b. Operational CRM
c. Analytical CRM

d. Collaborative CRM

5.

A program that offers discounts and special incentives designed to attract and retain customers is called a _____.

a. customer loyalty program
b. sweepstakes
c. discount plan
d. CRM software

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1.8: Ethical Marketing

Learning Objectives

By the end of this section, you will be able to:

- Define ethical marketing.
- Describe the importance of ethical marketing.
- Explain the dos and don'ts of ethical marketing.

Ethical Marketing Defined

As the term suggests, ethical marketing involves companies not only trying to market their products and services but also considering how society will benefit from the introduction of those offerings. It's not so much a practice as it is a philosophy that tries to promote fairness, honesty, and a sense of responsibility in all of the marketing done by the company.

What are the principles of ethical marketing? According to Lapaas Digital, a digital marketing agency based in Delhi, India, some of those principles include the following:

- All marketing should be true.
- The privacy of the end user is most important.
- Marketing campaigns must adhere to the norms, standards, rules, and regulations set forth by the government and other lawmaking authorities.
- Marketing professionals must be transparent about what they are trying to convey and whom they are approaching to convey the same (Lapaas, 2020).

The Importance of Ethical Marketing

Ethics are critical to a company's reputation, particularly when public opinion—particularly negative—goes viral instantly thanks to social media.

Ask yourself a question: how important are a company's ethics to you when you decide to purchase a product or service? According to market intelligence agency Mintel, 56% of US consumers stop buying from companies they believe are unethical. Perhaps even more importantly, approximately one-third of consumers are inclined to tell others when they perceive a brand to be taking actions that they perceive to be honest, fair, and responsible. Taking this one step further, 29% share their support of ethical companies via social media (Mintel, 2015).

The Dos and Don'ts of Ethical Marketing

The data cited above presents a somewhat dire picture for companies that do not practice ethical marketing, so let's look at some of the dos and don'ts of ethical marketing.

First, the dos:

- *Ensure transparency.* Transparency is key, and marketers should attempt to provide the maximum amount of information to the consumer regarding the product, its usage, and safety concerns. For example, Southwest Airlines ran a clever marketing campaign entitled "Transfarency," promoting its philosophy that customers should be treated honestly and fares should actually stay low. The result? The campaign garnered nearly 5 million likes on Facebook, which was impressive in 2016 (Alida, 2016).
- *Respect data privacy.* As we noted in our discussion of CRM above, marketers can collect vast amounts of consumer data. Data privacy is the biggest concern for consumers in this data-driven world, so marketers must always respect data privacy. Consider the fallout that Vizio (the TV manufacturer) experienced when the public learned that the company's devices did not ask customers for permission to track and report viewing information. The amount of data being gathered and the fact that Vizio did not request permission from customers meant the company was potentially in violation of the Video Privacy Protection Act. The company was sued in a class action lawsuit (Gardner, 2017).
- *Prioritize the concerns of the consumer.* No matter how small the concern of your consumer is, a marketer's top priority should be to respond to those concerns in a prompt, meaningful way. How long do you expect to wait for an email response from a company regarding its product or service—a day, two days, a week? You might be surprised to learn that, according to research,

42% of consumers expect a response within 60 minutes and 32% expect a response within 30 minutes. That illustrates the importance of responding promptly to increase the chances of a positive customer experience (BRG Communications, n.d.).

Now, the don'ts:

- *Don't overemphasize or exaggerate.* In marketing, this is sometimes referred to as "puffery." Of course, you want to convey the features and benefits of the product or service to the customer, but these need to be stated clearly and accurately. Don't promise something you can't deliver— doing so is unethical and, in the long run, not beneficial.
- *Don't make false or unverified claims.* One case illustrates the importance of honesty in advertising: Living Essentials, LLC, the makers of 5-Hour Energy shots, advertised its product as "doctor-recommended" and superior to traditional caffeine. Those claims were found to be misleading, and Living Essentials, LLC was ordered to pay $4.3 million in damages (Lombardo, 2017).
- *Don't make false comparisons.* Not only should you not make false or unverified claims about your own products or services, but you should not do it to competitors' products either. As a matter of fact, companies can sue competitors for false advertising claims under the federal Lanham Act, alleging that they suffered lost sales or damage to their reputation as a result of the competitor's false statements (Kronenberger, 2018).

Companies with a Conscience: TOMS Shoes



Figure 1.11 TOMS developed a marketing strategy with charitable giving in mind, in which the company shares products (such as shoes) or profits with those in need. (credit: "New Shoes Much :D" by Rob Ellis/flickr, CC BY 2.0)

TOMS (see Figure 1.11) was founded by Blake Mycoskie in 2006 after a trip to Argentina, where he saw how people were living in impoverished areas. Mycoskie decided to establish his company with giving in mind. He introduced what he calls the "One for One" concept: for every pair of TOMS shoes sold, the company donates another pair to a child in need. In a recent *Impact Report*, TOMS reported it had provided more than 95 million pairs of shoes to children in 82 countries (Naeini et al., 2015).

Emboldened by the success of the "One for One" concept, Mycoskie later expanded the model. For example, in 2011, the company introduced a line of eyewear and decided to use the same philanthropic principle but this time with a bit of a twist. Instead of donating glasses, TOMS donated a portion of the profits from each sale to save or restore the eyesight of those living in developing countries. To give you an idea of the success of this program, the company's website indicates that TOMS Eyewear has helped restore sight to more than 780,000 people (TOMS Shoes, 2021).

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1.9: Chapter Summary

This chapter introduces the basic concepts of marketing, including adding value to a company's business. Marketing begins with strategy and relies on creating and delivering value to customers. It is crucial for marketers to understand exactly what customers value and determine how to deliver the value while also meeting company goals.

There are many activities involved in the marketing process, including creating products and services, advertising, selling, distributing, communicating, and building relationships. Marketers must also acknowledge the importance of employees, suppliers, and other partners involved in analyzing market opportunities. The most important aspect of creating value is understanding both the customer and the marketplace.

There are many tools marketers can rely upon as they develop strategies. The marketing mix—product, price, place, and promotion—has traditionally comprised the marketer's toolbelt. Understanding the marketing environment, or forces outside and within the control of marketers, forms the context of all marketing efforts. Consumers ultimately expect companies to be ethical, honest, and trustworthy. Marketers know success is contingent upon abiding by ethical, societal, and corporate governance standards.

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1.10: Key Terms

5Ms of marketing | internal elements of a marketing plan that need to be resolved if the plan is successful

buyer | a person or institution that purchases goods or services

consumer | the final user of a purchased product or service

customer | a person who purchases a product or service

customer equity | total combined customer lifetime values of all the company's customers

customer loyalty | an ongoing positive relationship between a customer and a business

customer relationship management (CRM) | all strategies, techniques, tools, and technologies used by companies to develop, acquire, and retain customers

customer retention | the ability of a company to turn customers into repeat buyers and prevent them from switching to a competitor

customer value | the ratio of the perceived benefits relative to the costs incurred by the customer in acquiring the product or service

customer-driven marketing strategy | a marketing strategy that shifts the focus from the product or service to its users

delight needs | an added value that a customer might receive from a seller without prior expectation or request for the same

desired object | a physical good, service, or experience that consumers expect will satisfy their wants and/or needs

ethical marketing | process that emphasizes trustworthy, transparent, social, and culturally sensitive marketing policies

exchange process | the process of satisfying a need or want by giving something of value in exchange

external interested parties | a person or organization that does not have a direct relationship with a company but is affected by the operations of the business

form utility | the value given to a product by virtue of the fact that the materials and components that comprise it have been combined to make the finished product

interested parties | a group that has an interest in a company or organization and can either affect or be affected by it; often referred to as "stakeholders"

internal interested parties | those persons whose interest in a company comes through a direct relationship such as employment, ownership, or investment

internal marketing | the promotion of a company's objectives, products, and services to internal parties, such as employees, owners, managers, and shareholders

internet advertising | a set of tools for delivering promotional messages to people worldwide, using the internet as a global marketing platform

macroenvironment | the set of external factors and forces, not controlled by the company, that influence its operations

marketing | the activities a company undertakes to promote the buying or selling of a product or service

marketing concept | marketing philosophy that firms should analyze the needs of their customers and then make decisions to satisfy those needs better than the competition

marketing environment | all of the internal and external factors that drive and influence an organization's marketing activities

marketing mix | the set of actions or tactics that a company uses to promote its brand or product in the market

marketing process | the series of steps that assist businesses in planning, analyzing, implementing, and adjusting their marketing strategy

marketing strategy | a plan of action designed to promote or sell a product or service

microenvironment | those factors or elements in a firm's immediate environment that affect its performance and decision-making

organizational culture | beliefs and behaviors that determine how a company's employees and management interact and handle customer relationships

PESTLE analysis | a strategic framework used to assess the political, economic, social, technological, legal, and environmental factors affecting an organization

place | the geographical location in which the company sells its products and/or provides its services

place utility | making goods and/or services physically available or accessible to potential customers

possession utility | the amount of usefulness or perceived value from owning a product

price | the cost that consumers pay in order to acquire a product or service

product | anything that can be offered to a market that might satisfy a want or need

product concept | the orientation that consumers will favor those products that offer the most quality, performance, or innovative features

production concept | the orientation that consumers will always acquire products that are cheaper and more readily available

promotion | any type of marketing communication used to inform audiences of the relative merits or a product, service, or brand

real needs | the value the customer is going to derive from the stated good or service

retailers | companies that purchase large quantities of goods from producers and then sell smaller quantities to end customers for personal use or consumption

sales concept | orientation that analyzes buying and selling effects to place the focus primarily on generating sales transactions

secret needs | the needs that the consumer feels reluctant to admit

seller | the individual or organization that supplies the need-satisfying product, service, or experience

societal marketing concept | philosophy that a company should make marketing decisions by considering not only consumers' wants and the company's capabilities but also society's long-term interests

stated needs | those product or service needs that are clearly specified by the customer

suppliers | sometimes also called *vendors*, these are partners from whom we receive the parts and products necessary for our business

time utility | adding value to the consumer by having the product or service available when the consumer needs it

unstated needs | those needs that are not obvious but are expected by the customer

utility | how a product can be useful to customers in a way that convinces them to make a purchase

value | the difference between a customer's evaluation of the benefits and costs of one product when compared with others

value proposition | a promise of value to be delivered, communicated, and acknowledged

wholesalers | companies that purchase large quantities of products from producers and then sell to smaller businesses, such as retail stores

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1.11: Applied Marketing Knowledge- Discussion Questions

1. Why is capturing customer lifetime value so important? Choose a retailer and apply this concept as a way to explain, in part, its profitability and long-term viability in the marketplace.
2. The marketing mix has been compared to a tool belt. In other words, successful marketers can devise an appropriate marketing mix by combining the right blend of tools: product, price, place, and promotion. Describe a recent product you purchased on Amazon.com or some other online retailer (place), how you located it (promotion), and whether the price was competitive compared to similar products.
3. Why do some marketers prefer to follow the 4Ps (product, price, place, and promotion) of marketing while others might prefer to follow the new pattern of the 5Ms (minds, minutes, machinery, materials, and money)?
4. A person can be a product. Please give an example of this.
5. According to the US Centers for Disease Control and Prevention, the birth rate is falling in communities around the world. In the United States, the birth rate fell by 4% in 2020, an all-time low. Describe why dwindling population is a demographic concern in the macro-environment all businesses must contend with.

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1.12: Critical Thinking Exercises

1. Your roommate in the dorm talks on his cell phone incessantly while you're trying to study. Because you're a broke college student and it's too cold to walk to the library, you decide to explore the marketplace for used noise-canceling headphones. How will you locate the best, most affordable market offering to meet your needs? Describe how marketing messages may guide your steps in this process.
2. All consumers have needs and wants. You likely felt a state of deprivation this morning—hunger—and decided what to eat for breakfast. Do some research to discover how your breakfast preference (want) compares with what a college student living in Osaka, Japan, might want to satisfy their need for sustenance.
3. Because relationships are so important in marketing, multiple tools have been developed to help manage customer relationships. Many technological advances assist marketers in their efforts. Promotional strategies include utilizing social media posts, websites, advertising, public relations, and sponsorships to communicate with the target audience. One of the most effective tools in planning and calendaring these promotional contacts or touch points is a Gantt chart. Do a bit of research on Gantt charts so you better understand this scheduling tool that also visually illustrates linkages between promotional activities and progress toward a marketing goal. List and discuss five benefits of using this CRM planning tool. Finally, in your research, did you discover an alternative method to depict a marketing project schedule visually?
4. In 2016, Amazon announced it was building its own logistics and shipping business to put the brakes on rising delivery costs. The overall goal was to deliver Amazon packages as well as other packages from retailers and consumers to cut delivery costs in half. By 2021, Amazon was shipping 72% of its own packages as well as packages for Walmart and eBay. Read more about the effort (opens in new window).

With this new shipping venture in mind, answer the following questions:

- How is Amazon's decision to enter the logistics and shipping industry a move toward improving customer loyalty and equity?
- How will Amazon's new delivery service benefit Amazon?
- How do you predict Amazon's rivals in this distribution channel have responded?

5. Is it OK for companies to profile customers and predict their purchase behavior? Every time you, as a consumer, visit a website, your "cookies" are gathered and used to better understand your shopping behavior. Several years ago, Target's analysts developed an algorithm based on Target customer buying behavior that predicted pregnancy. Those predicted to be pregnant—based on the products they bought—were sent targeted marketing materials. The angry father of a high school student accused Target of erroneously sending his daughter a sales flier for baby products. Supposedly, the daughter was pregnant. Read more about the incident.

6. How do you feel about companies gathering intimate details about you for marketing purposes? Do you believe these companies develop a better relationship with you as a result? Despite being accurate, was Target's pregnancy-predicting algorithm ethical, invasive, or somewhere in between?

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1.13: Building Your Personal Brand

Taking college courses is a huge step forward in your professional development. However, there are additional activities that can also impact your self-awareness and provide credentials sought by employers. Campus career center directors, employers, and internship coordinators repeatedly stress the following suggestions for improving your employability.

1. Take free online courses through LinkedIn, Coursera, Google, or Microsoft. Completion of courses offers evidence of skill development. For instance, Google Analytics for Beginners, Advanced Google Analytics, and Fundamentals of Digital Marketing are all available for free, given that they boost online education linked to Google's technology products. Some courses even offer badges to add to your LinkedIn profile, resume, and cover letters. You can find more information about these programs by reading these two articles from *The Report*, a source for trends in online education: [2024] 1000 Hours of Free LinkedIn Learning Courses with Free Certification and [2024] 600+ Google Free Certificates and Badges.
2. Join campus clubs and organizations where you can be part of a giving-back project, hone your project-management skills, or gain leadership experience. Employers value your initiative.
3. Keep up with current events—read newspapers, blogs, and other news sources that are pertinent to your field—because you'll need to carry on a conversation and because what we do requires a good sense of what's going on in the world.
4. Take advantage of campus services. Does your career center offer mock interviews? Will the staff help you develop a resume or edit one you've already written? Some colleges even offer short courses on etiquette.
5. Put together a list of possible references. Was your work in a particular course memorable? If so, ask your professor if they would refer you. Does your list of summer jobs indicate increasing responsibility or use of your education? Be certain that all of your references are on board; they must agree to give you an excellent reference and then should be kept in the loop about jobs you've applied for or, better yet, been offered.
6. Obtain a certification from HubSpot Academy, a well-known marketing website. Learn about the various certifications it offers by checking out its website.

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1.14: What Do Marketers Do?

The American Marketing Association (AMA) has teamed up with the Digital Marketing Institute to offer specialized training within the marketing discipline. You can set yourself apart from other marketers with additional certifications. Are there other benefits you can take advantage of? Take a look at one of the 65 chapters located across the country. Is there one located in your city? Not only is membership a great way to volunteer, it's also an effective way to market yourself to potential employers. For instance, the Minnesota Marketing Association welcomes students and professionals who are willing to help plan programs and organize mentorship programs. You can contact your state's AMA executive director and ask to interview them regarding student membership rates or opportunities for college students to interact with professional members. College students are also encouraged to enter an annual competition that demonstrates their marketing and business expertise before a panel of judges by providing innovative solutions to a real-world challenge.

You can also learn a lot by following AMA blogs where knowledgeable professionals discuss insights, ideas, and trends.

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1.15: Closing Company Case

Batdorf & Bronson

Coffee is a global drink loved by many. From the simple espresso in Italy to the cinnamon added in Mexico, coffee is a global beverage. The origins of coffee date back to the ninth century. Legend has it that in a remote part of Ethiopia, a goat herder noticed his goats dancing about and full of energy. He realized they had eaten some nearby small red berries. Once the herder tried the berries, he, too, was dancing. The small red berries ushered in the discovery of coffee as a drink we cannot seem to get by without.

With a love for coffee and the thoughts of goats dancing in their heads, husband and wife Larry and Cherie Challain opened their first coffee bar—Dancing Goats in Olympia,Washington—in 1988. But as any coffee entrepreneur knows, a coffee bar is only as good as the coffee it serves. To serve the freshest coffee in the world, the duo acquired Batdorf & Bronson Coffee Roasters.

Roasting good coffee starts with finding the best coffee beans. The Challains know that to get good coffee beans, it is important to go to the source. By developing direct relationships with coffee farmers, Batdorf & Bronson is assured of the most sustainable and environmentally sourced beans in the industry.

For example, the Ethiopia Sidamo Guji is a grade 1 natural-processed bean grown on a privately held farm, Kayon Mountain. The farm is owned by Ato Esmael and his family. This organic-certified farm produces all-natural, sun-dried, and fully washed coffee. Sun drying means that once the beans are picked and washed, they are dried on raised beds for 12–20 days.

It has been over 30 years since the Challains served their first cup of coffee. Through their quest to improve the coffee experience for patrons and to elevate the growing experience, the Challains expanded their footprint. The duo knows that coffee beans are best served fresh. Freshness means being close to the source. The journey from the family farms to your cup is made easier through their additional roasting facility in Atlanta, Georgia. Because these facilities are centrally located on the West and East Coasts, beans can be roasted at either facility and be within a day's delivery of their own Dancing Goats coffee bars in Atlanta and Olympia as well as in the hands of their retail coffee partners across the country.

Both roasting facilities in Washington and Georgia can serve customers. Every Monday, orders are taken from the Dancing Goats retail partners. Batdorf & Bronson waits to receive orders on Monday before beginning roasting. For those who have not experienced the difference between freshly roasted coffee and all the rest, there is no comparison. Coffee is roasted on Tuesday, and retail partners receive their shipments on Wednesday.

Batdorf & Bronson is diligent about the roasting, brewing, and extraction process for all of its Dancing Goats Coffee Bars. It is equally concerned for its retail partners across the country. To provide the support needed by its small independent coffee bars, it provides instruction from its on-staff master baristas.

The experience of an adult coffee lover visiting a Batdorf & Bronson roasting facility is similar to that of a kid winning the golden ticket to the Willy Wonka Chocolate Factory. While your GPS is calculating the yards before turning into the parking lot, you can smell the coffee roasting. Upon entering the facility, you feel as though you are entering a sophisticated laboratory. Scales, thermometers, pristine roasting chambers, and carefully calibrated espresso machines are everywhere. Bags of green coffee beans are piled high and deep. The beans have recently arrived from the family farms located in coffee regions around the world.

To be a retail partner with Batdorf & Bronson means that you have a team behind you. It provides training for baristas, sample bags of new beans, and roast profile sheets describing the growing and harvesting process for the coffee you serve your local community residents. Batdorf & Bronson is as diligent with every cup of coffee served to a customer as it is with every bean that is harvested and purchased for its roasting facilities. Because of this laser-like focus on quality, a cup of coffee brewed with Batdorf & Bronson beans is like no other coffee found at your typical coffee shop.

Customers who frequent the Dancing Goats Coffee Bars know the quality they can expect with their brewed coffee and espresso-based coffee drinks, and for that quality Dancing Goats is the go-to coffee of choice. For those who experience the Batdorf & Bronson difference at local coffee bars nationwide, the fresh taste and exceptional quality provide a reason to choose handcrafted, small-batch coffee shops over traditional "fast-food" coffee chains.

To learn more about this coffee company, check its website here.

Case Questions

1. Batdorf & Bronson is a coffee roasting facility. Dancing Goats Coffee Bars are retail stores. How does the ownership of a retail store help the supplier understand its customer?
2. Batdorf & Bronson has direct relationships with the family farms that grow the beans it buys, roasts, and distributes nationwide. How does this relationship with the coffee growers benefit its retail partners?
3. When Batdorf & Bronson provides a master barista to help train and educate retail partners, what is the value proposition it provides to the coffee bars that buy beans from it?
4. How is Batdorf & Bronson fulfilling the marketing concept?

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CHAPTER OVERVIEW

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2.1: In the Spotlight



Figure 2.1 A team of marketing strategists brainstorm to develop a strategic plan. (credit: modification of work “Design a Better Business Masterclass @ Zoku Amsterdam, October 2017” by Sebastiaan ter Burg/flickr, CC BY 2.0)

Chapter Outline

2.1 Developing a Strategic Plan
2.2 The Role of Marketing in the Strategic Planning Process
2.3 Purpose and Structure of the Marketing Plan
2.4 Marketing Plan Progress Using Metrics
2.5 Ethical Issues in Developing a Marketing Strategy

Frito-Lay, the producer of Doritos, Lay’s, and Cheetos, is a $15.8 billion business division of PepsiCo (2024). If you’re a snack food fan, you might have noticed how Frito-Lay seems to constantly come up with new flavors for its chips—dill pickle, Chesapeake Bay Crab Spice, Chile Limón, and more—even in times of inflation. You might picture nutritionists and scientists working in labs, trying recipe after recipe to come up with a winner. But Frito-Lay has a unique way of including customers in its strategic decision-making process (Geyser, 2022).

The company crowdsources its new flavors through a contest called “Do Us a Flavor” asks customers to submit ideas for flavors they’d like Lay’s to develop. The company then selects the three best entries and awards a cash prize to the winners (Geyser, 2022).

For example, Frito-Lay’s “Turn Up the Flavor” contest resulted in three limited-time flavors inspired by three music genres: hip-hop, pop, and rock. To pique interest in the content, Frito-Lay teamed up with singer/songwriter Bebe Rexha, who wrote the theme song for the campaign, and the company included a unique code for the new chip packets so that buyers could unlock Rexha’s new tracks (Geyser, 2022).

Link to Learning: Lay’s Commercial

Check out the Lay’s Turn Up the Flavor commercial with Bebe Rexha.



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2.2: Developing a Strategic Plan

Learning Objectives

By the end of this section, you will be able to:

- Define strategic planning and list the steps in the strategic planning process.
- Write an effective vision statement and mission statement.
- Describe the role of company values.
- Perform a gap analysis.
- Write SMART objectives and goals.
- Summarize ways to monitor progress of the strategic plan.

Strategic Planning Defined

Let's start with a simplified definition of strategy and then move on from there. Many, if not most of you, have watched a football game, either live or on television. Perhaps you're a fan of a particular team, or you will watch the Super Bowl (perhaps just to see the commercials). Every football coach knows that players do not enter a game without a game plan—the process of taking plays out of the playbook and putting them into a game plan for a specific opponent. This is a difficult task. The coaching staff has to consider the skills and experience of the players on the team as well as the strengths—and weaknesses—of the opposing team, and they will develop the plays that they feel will best neutralize the strengths of the opposing team while taking advantage of the strengths of their own players.

That football game plan is a great analogy for a business's overall strategy—the plans, actions, objectives, and goals that outline how the business will compete in its chosen markets, given its portfolio of products or services. In marketing, a portfolio is a collection or listing of all the goods and services a company sells to customers.

Distinctions are often made between corporate-level strategy, business-level strategy, and functional strategy, so let's briefly define them here. Corporate-level strategy covers the entire business in a complex organization with multiple businesses, divisions, or operating units (sometimes called strategic business units or SBUs). Corporate-level strategies are formulated and implemented by upper management. Business-level strategy is the strategic plan created for a single business or operating unit, and these plans are generally developed by middle management to support the corporate-level strategy. Corporate-level and business-level strategies lead to the development of functional strategy, which is the plan to achieve the corporate- and business-level objectives in functional areas such as human resources, marketing, and production.

People say a picture is worth a thousand words, so take a look at how this breaks down in Figure 2.2.

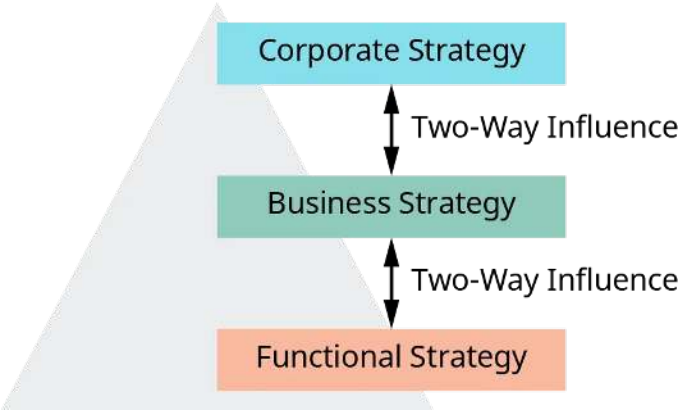


Figure 2.2 Different Levels of Strategy Required in Complex Organizations (CC BY 4.0; Rice University & OpenStax)

Many organizations have only a single product line, market focus, or business, so they will require only a business-level strategy. However, with larger organizations, it can be important to break the overall business into smaller, more manageable strategic business units to maintain an overall focus on the business as a whole and pull the business-level strategies into a cohesive whole.

Consider, for example, Procter & Gamble. The producer of such diverse products as diapers, Tide detergent, and Oral-B toothpaste has five industry-based strategic business units—baby, feminine, and family care; beauty; health care; grooming; and fabric and home care, family care, and new ventures. Each SBU has its own chief executive officer and functions essentially as a standalone business under the corporate "umbrella" (Proctor and Gamble Company, 2024).

When you consider the complexities of the diverse markets Procter & Gamble serves, this makes sense. Competing in the oral care market differs vastly from competing in baby products, so separate SBUs require separate strategic plans.

Steps in the Strategic Planning Process

There are many variations of the strategic planning process—almost as many as there are publications on strategic planning. For our purposes in this textbook, we will use the five-step process outlined in Figure 2.3. Keep in mind, however, that the process may be a little different for some organizations depending on the stage of their products in the product life cycle (which we'll learn more about in Products: Consumer Offerings), the maturity of the industry in which the business participates, how competitive the marketplace is, and other factors.



Figure 2.3 Steps in the Strategic Planning Process (CC BY 4.0; Rice University & OpenStax)

These elements will all be defined in more detail in the sections that follow.

Step One: The Vision Statement: Where Do We See the Business Going?

The strategic planning process begins with a solid understanding of what the organization is trying to create—that is, its vision statement. A vision statement is forward-looking and is intended to create a mental image of what the organization wants to achieve in the longer term. Vision statements should be both inspirational and aspirational.

Let's look at some vision statements from companies with which you might be familiar so you'll see how this works:

- Amazon: "Our vision is to be earth's most customer-centric company; to build a place where people can come to find and discover anything they might want to buy online" (Hull, 2012).
- Volkswagen: "To make this world a mobile, sustainable place with access to all the citizens" (Visionary Team, 2021).
- Fujitsu: "Understanding you better—serving you best" (Fujitsu United States, 2024).

Link to Learning: Vision Statement

For more information on how to write a vision statement, take a look at this brief video from RapidStart Leadership:



Step Two: The Mission Statement: Why Does the Business Exist?

Now that the vision statement is complete, it's time to tackle the mission statement, which quite simply answers the question: *why does the company exist?* The mission statement of an organization sums up in one to three sentences what the company does, who it serves, and what differentiates it from its competitors. Whereas the vision statement provides the destination (i.e., Where is the business going?), the mission statement provides the guideposts for the business to get there.

Mission statements serve two purposes. First, a well-written mission statement helps employees remain focused on the aims of the business. Second, it encourages them to discover ways to increase their productivity to achieve company goals. Mission statements aren't just for internal use, however. Prospective investors also often refer to a company's mission statement to see if their values align with the company's. Once again, let's bring this definition to life by including a few mission statements from well-known companies:

- BMW: "The BMW Group is the world's leading provider of premium products and premium services for individual mobility" (Farfan, 2019).
- Tesla: "To accelerate the advent of sustainable transport by bringing compelling mass-market electric cars to market as soon as possible" (Cuofano, 2022).
- Apple: "To bring the best personal computing products and support to students, educators, designers, scientists, engineers, businesspersons and consumers in over 140 countries around the world" (Rowland, 2024).

There are also two types of mission statements: customer-oriented or product oriented. What's the difference? A customer-oriented mission statement defines the business in terms of how it intends to provide solutions to customer needs. As examples, take a look at some of these customer-oriented mission statements:

- IKEA: "To offer a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them" (IKEA, 2024).
- Netflix: "To entertain the world" (Rivera, 2019).

The other type of mission statement is a product-oriented one. With a product-oriented mission statement, the focus is on the offering itself rather than customers' needs. Again, look at a couple of examples of product-oriented mission statements so you can see the difference between these mission statements and the customer-oriented mission statements shown above:

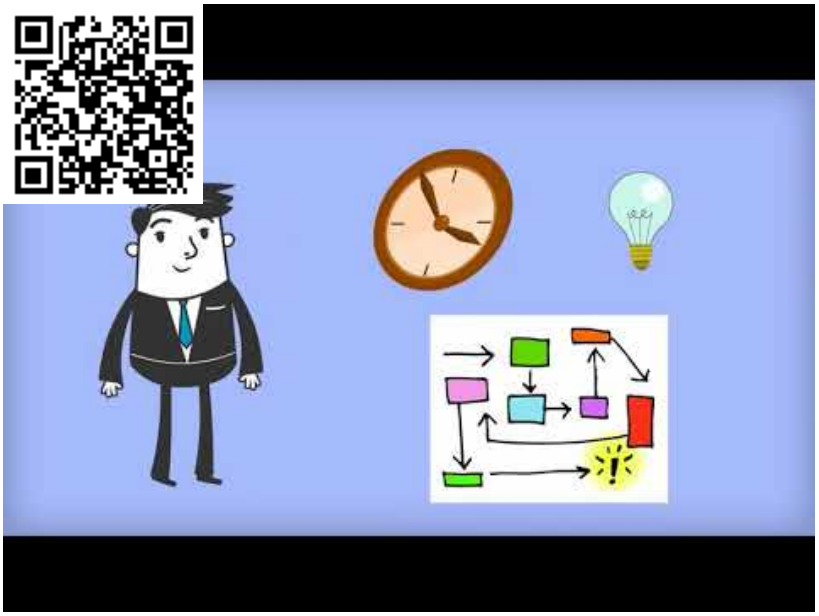
- eBay: "To be the world's favorite destination for discovering great value and unique selection" (eBay, 2024).
- Genentech: "To develop drugs to address significant unmet medical needs" (Bresciani, 2022).

Link to Learning: Mission Statement

For more information on how to write an effective mission statement, check out this brief video from Bplans.



Then, watch this video from Entrepreneur.



Step Three: Perform a Gap Analysis

Before we get into the specifics of how to perform a gap analysis, let's define it. Simply put, a gap analysis is an internal analysis of the company or organization to identify and review any inherent deficiencies that may hinder its ability to meet its goals. In other words, a gap analysis determines what factors in the organization may be causing it to underperform.

A gap analysis answers the following questions:

- Where are we now?
- Where would we like to be?
- What's stopping us from getting there?

A gap analysis as part of the strategic planning process is a way to determine where the “soft spots” are and where adjustments need to be made before setting a course of action.

There are four steps to completing a gap analysis from Kaur (2022). Let’s take a look:

- **Step 1: Identify the current state of the business, organization, or department.** Let’s use an example of a company that wants to increase market share of its product line. To date, current growth is sluggish, averaging only 5% per year.
- **Step 2: Identify where you want to be.** “Where you want to be” may be identified by using different terms—the desired state, the future target, or a stretch goal. It stands to reason that you’ll want to consider your current state (from Step 1) and where you want to be in a reasonable time frame. Do you want to increase market share by 10% within the first year? Do you want to increase market share by 25% within the first three years? Because strategic plans often go out three to five years, your “where you want to be” can also be lengthy.
- **Step 3: Identify the gaps.** At this point in your gap analysis, you’ve identified where your organization current is and where it wants to be. Now it’s time to identify how you will bridge that gap. This step involves figuring out what those gaps are. Is market share suffering because a new competitor introduced a similar but lower-priced product? Is your pricing too high, given production capabilities and costs? Has the advertising campaign introduced last year lost its sizzle, or worse yet, did your most recent campaign flop?
- **Step 4: Devise improvements to close the gaps.** It’s time to determine the proper course of action to close the gap, keeping in mind the cost of implementation for each solution. This is where the rubber hits the road, so to speak, because ideas are easy; it’s the execution of those ideas that becomes challenging. An effective gap analysis not only identifies the problems (i.e., gaps) but also sets forth what needs to happen in specific terms to close those gaps. Will a new advertising campaign boost market share? Do we need to hire a new advertising agency? And what will a new advertising campaign cost? Are there cost-cutting measures that can be taken to reduce manufacturing costs, thereby reducing the product’s cost to consumers?

Step Four: Establish Objectives and Goals

With the mission and vision statement in place, along with a candid view of the organization through gap analysis, we can now define the organization's goals and objectives. Goals and objectives are a critical part of every organization, particularly in the strategic planning process. When written effectively, these goals provide direction and a clearer focus. It’s these goals that give the organization a target at which it can aim, so to speak.

But before we go further, let’s differentiate between goals and objectives. Both terms refer to desired outcomes the organization wants to achieve, but that’s where the similarity ends. Goals are statements of desired outcomes expected to be achieved over a longer time, typically three to five years. Goals are broad statements of the desired results; they do not describe the methods that will be utilized to achieve those results. For example, common business goals may include increasing revenue or market share or reducing the company’s carbon footprint (Birt, 2022).

On the other hand, objectives are “action items.” They are specific targets to be achieved within a shorter time frame, generally one year or less, to achieve the stated goal. Whereas goals describe the end result, objectives describe the actions or activities that need to take place to achieve the goal. For example, if your goal was to increase market share, the objective would likely be stated as something like “Increase market share to 6% by the end of the year" (Birt, 2022).

The goals and objectives of an organization define the key actions that allow it to execute its chosen strategy. However, to be effective, goals and objectives should be SMART— specific, measurable, attainable, realistic/relevant, and time-bound—as shown in Figure 2.4.



Figure 2.4 SMART Goals (CC BY 4.0; Rice University & OpenStax)

- First, effective goals should be **specific—**there's the "S" in SMART goals. They should be clear and easy to understand. A specific goal answers questions like "What needs to be accomplished?" To illustrate this, imagine you've decided to improve your grade point average. "Improve my GPA" is indeed a goal, but it's too vague to be a helpful goal. By how many points do you want to improve your GPA? To make your goal more meaningful (and specific), you might want to restate your goal as "Improve my current GPA from 2.8 to 3.5."
- Second, effective goals should be **measurable**—there's the "M" in SMART goals. Specificity is a solid start, but quantifying your goals makes it easier to track progress and see when you've achieved your goal. The bottom line is that you can't see results without knowing what they look like, and if you're not measuring anything, how will you know when and if you've accomplished it? Your original goal of "improving my GPA" isn't measurable. How will you know when you've achieved your goal? When you've increased it by .1, .2, .5, or even a full point? By setting a goal to "improve my current GPA from 2.8 to 3.5 by the end of the semester," you've set a goal that's easily measurable—just look at your grades at the end of the semester!
- Third, effective goals should be **attainable**. There's actually some disagreement as to the name of this third element. Some marketing experts tout using "ambitious"; others suggest "achievable" or "actionable." For our purposes, we will stick with "attainable" because although goals should be a reach, establishing goals that aren't within reach can turn out to be an exercise in frustration. Let's go back to our GPA analogy. If it's mid-April and you're barely passing your current classes, you're just setting yourself up for failure.
- Fourth, effective goals should be **realistic**. Once again, there's actually some disagreement as to the name of this element; you may see it shown as "relevant" in other textbooks or articles. We will use "realistic" because the term reflects the balance between goals that are too easy and too hard. Taken in the context of a strategic plan, your goals must represent a substantial objective that you're willing and able to work toward, but there should be a reasonable chance that you can achieve it (Sabell, 2021). Returning to our GPA analogy, if you've got Cs in all of your classes and it's already mid-April, improving your GPA to 3.5 by the end of the semester is probably not realistic.
- Finally, effective goals should be **time-bound**. Every goal should be grounded by a time frame within which the goal is to be achieved. Without a deadline, there is little sense of urgency to work to achieve the goal. Having a goal with a target date (like the end of the semester) gives you something to focus on and work toward and prevents everyday tasks from taking priority over your longer-term goals.

Link to Learning: SMART Goals

For more information on establishing SMART Goals, check out this video from SMA Marketing:



Monitor Progress

If you had decided to save money from each of your paychecks to eventually purchase a new car, you'd probably check the balance in your savings account on a regular basis to see how you're progressing toward your goal. The same is true in the strategic planning process. In order for goals and objectives to be effective, marketers need to monitor them on a continuous basis to determine if they're on track or if the goals and objectives need to be refined in response to unforeseen circumstances.

One way that marketers accomplish this is through the use of a marketing dashboard. Like the dashboard in your car, which tells you at a glance how much fuel you have, how fast you're going, and a host of other important information, a marketing dashboard summarizes important marketing metrics and key performance indicators (KPIs; to be covered later in this chapter) into easy-to-understand measurements (Skyward Staff, 2016). This enables marketers to view ongoing progress so that they can be aware of potential problems before they actually become serious issues.

Careers In Marketing: Marketing Manager

Marketing manager jobs differ by company and industry, but in general, it's a leadership position in charge of the marketing strategy of a company or a product. Marketing managers often complete research, create pricing parameters, and work with other departments within the company, such as finance, legal, advertising, promotion, and product development. Read this *Marketing Manager* article to learn more about the specifics of what a marketing manager does and the existing types of marketing managers. It's commonly known that marketing managers must be proficient in problem-solving. Read this article to learn why it's important and the specific skills you'll need.

There is growth potential in being a marketing manager. The US Bureau of Labor Statistics projects a 10% growth in the job role from 2021 to 2031, and you can read more about the job outlook here.

Would you like to know more about the job role? Read this *Forbes* article to learn the top skills necessary, the typical path to this job, and its degree requirements.

There are many types of jobs in marketing. You'll be introduced to several throughout this textbook. You'll also want to check out this list of 15 job titles and what the job role encompasses. Keep in mind that regardless of where you start in marketing, you have options as you move in your career journey. Many people move between marketing roles, and the skills you learn in each role will help you in other roles.

Knowledge Check

It's time to check your knowledge of the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Which of the following defines the reason why the business exists?

a. Vision statement
b. Mission statement
c. Gap analysis
d. Goals and objectives

2.

Which of the following strategies covers the entire organization when the business includes multiple divisions or operating units?

a. Functional strategy
b. Strategic business unit strategy
c. Corporate-level strategy
d. Business-level strategy

3.

What do you call the plans, actions, objectives, and goals that outline how a business will compete in its chosen markets?

a. Mission statement
b. Vision statement
c. Gap analysis
d. Strategy

4.

Which of the following best describes a gap analysis?

a. A statement that answers the question, Where do we see the business going?
b. An internal analysis of the company to identify inherent deficiencies that may hinder its ability to meet its goals
c. A statement that answers the question, Why does the business exist?
d. A strategic plan created for a single business or operating unit

5.

In “SMART goals,” what does the “R” stand for?

a. Relatable
b. Rational
c. Required
d. Realistic

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2.3: The Role of Marketing in the Strategic Planning Process

Learning Objectives

By the end of this section, you will be able to

- Explain the role of marketing in the strategic planning process.
- Discuss the business portfolio and identify planning tools.
- Describe a SWOT analysis.
- List and describe marketing strategies based on analytics.

Explain the Role of Marketing in the Strategic Planning Process

To get a better idea of the importance of marketing in the strategic planning process, let's imagine that you're the owner of a manufacturing business that produces widgets. You've been able to recruit top engineering talent to design these widgets and source components from trusted, reliable vendors, and your manufacturing facility is efficient and can produce the widgets cost-effectively Sounds like a winning business, doesn't it?

Well, the only thing we've left out of the equation for success is customers, and without customers, the finest engineering staff and manufacturing facility in the world won't ring the bell in terms of profits or revenue. You need to determine who your customers are, what their needs and wants are, how you're going to reach them, and how you're going to persuade them to buy your widgets. That's where marketing comes into the strategic planning process, and that's why it plays a crucial role.

Marketing in the strategic planning process has several basic but critical functions:

- First, marketers assist the strategic planning team in executing a marketing philosophy throughout the strategic planning process.
- Second, marketers assist the organization in gathering and analyzing information necessary to examine the current situation (the first step in a gap analysis).
- Third, marketers are responsible for identifying trends in the marketing environment and assessing the potential impact of those trends.

Business Portfolio Definition

As noted above, many businesses have a single product or business unit. However, larger organizations such as Apple, Alphabet, General Electric, Meta, and Microsoft often have multiple diverse business units called strategic business units. Even though SBUs report directly to the parent company's headquarters, they typically develop their own vision statements, mission statements, objectives, and goals, and the strategic planning for these SBUs is performed separately and apart from other SBUs within the organization (Avada Commerce, 2024). When companies have multiple products or business units, these comprise the business portfolio—the total group of product lines, services, and business units the company possesses.

To give you a better sense of what a business portfolio entails, look at Figure 2.5, which illustrates Microsoft's products and services and how each offering contributes to the company's overall strategic plan (Nadella, 2021). Microsoft reported $168 billion in revenue in fiscal year 2021, and each of its product lines (or strategic business units) contributes to this revenue in differing amounts (Nadella, 2021). It's easy to see from this breakdown why each of these businesses under the Microsoft "umbrella" would have different strategic plans to execute within the markets they serve. You likely wouldn't have one overarching marketing or business strategy for all of these SBUs because the markets for Office, Gaming, LinkedIn, and the other SBUs are likely very different and require different strategies to reach and retain customers.

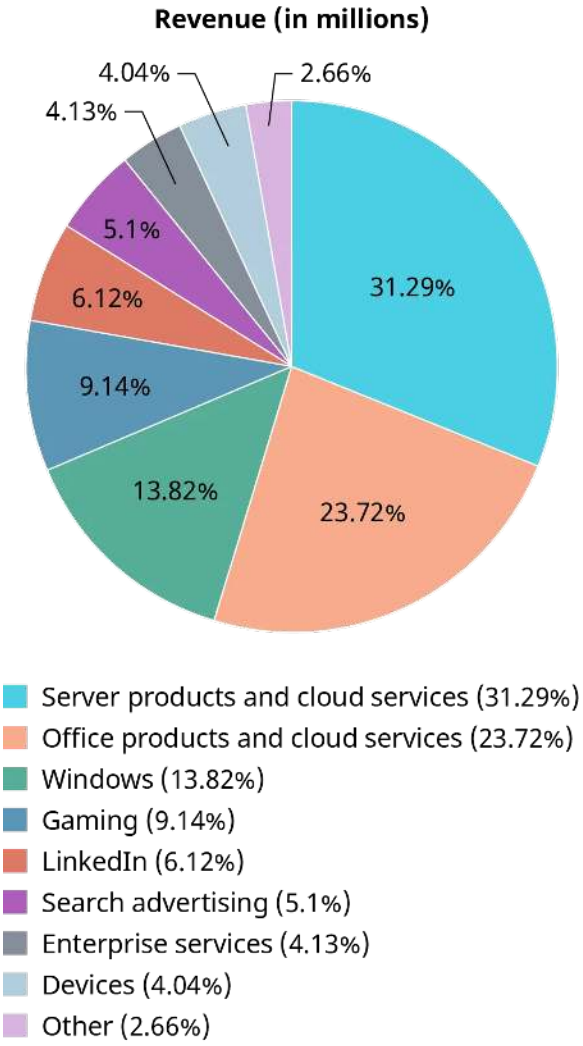


Figure 2.5 Composition of Microsoft Revenues (data source: *Microsoft Annual Report 2021*; attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Analyze and Design the Business Portfolio

There are many reasons why an organization would establish separate business units or product lines as it grows. For example, if the current product line is in a market where growth is limited, it may choose to branch out to other product lines or markets. Alternatively, an organization may choose to expand into other product lines to take advantage of emerging opportunities.

Emerson Electric, headquartered in St. Louis, Missouri, has five business segments: Network Power, Process Management, Industrial Automation, Climate Technologies, and Commercial and Residential Solutions (i.e., tools and storage). These business segments provide products as diverse as hardware and software technologies; motors; fluid control systems; heating and air-conditioning products and services; and tools, storage products, and appliances for residential, health care, and food services (Weedmark, 2019). When you consider divisions as diverse as these, it should be readily evident why each is a separate division with separate strategies to compete in its respective marketplaces.

Conversely, a business may choose to expand in areas where it already has experience and can use the power of its core competencies to establish sustainable competitive advantage with new products in existing markets.

There are a few tools that can help determine which course of action is best advised given the current circumstances of the organization, the marketplace, and other factors. Let's take a look at a few of them.

Boston Consulting Group (BCG) Matrix

The BCG matrix is a model developed by Boston Consulting Group that can be used to analyze a business's product lines or SBUs and make decisions about which to invest in in the future and which they should try to minimize further investment in or even eliminate. The bottom line is that no business has unlimited funds to invest in its product lines, and the BCG matrix is a useful model for determining how to allocate money in terms of marketing annd research and development (R&D) to that portfolio.

As shown in Figure 2.6, the BCG matrix considers both market share and market growth rate. The SBUs or products that have high market share in a high-growth market are called *stars* and are placed in the upper left quadrant. These are the opportunities that hold the most promise for the organization.

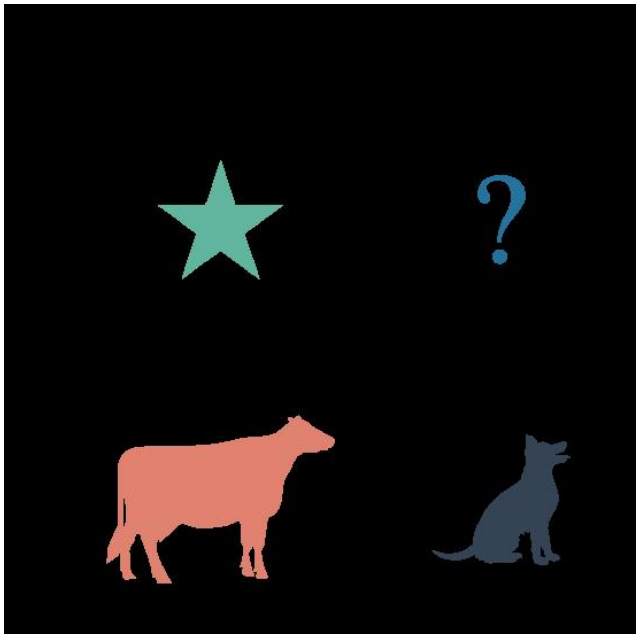


Figure 2.6 Boston Consulting Group (BCG) Matrix (CC BY 4.0; Rice University & OpenStax)

Conversely, those SBUs or products that have low market share in a low-growth market are referred to as *dogs* and are placed in the lower right quadrant. These are prime candidates for divestiture or elimination because they have relatively low growth potential, and although the business has significant funds tied up in them, they bring in virtually nothing in revenues. Divestiture could also provide needed capital for your stars or question marks.

Cash cows, in the lower left quadrant, are an interesting breed, so to speak. A cash cow is an SBU or product with high market share in a low-growth market. They're valuable to a business because they generate significant revenue that can fund other strategic initiatives or emerging opportunities. Incidentally, they're called cash cows because the thinking is to "milk" these products for profits.

Those SBUs or products that have a low market share in a high-growth market are called *question marks* (sometimes also called "problem children") and are placed in the upper left quadrant. Question marks are among the most complex decisions to be considered when developing a BCG matrix because a root cause analysis may be required to determine why these SBUs are, in fact, question marks. Obviously, with high-market growth, the market is strong, but there are one or more reasons why your organization hasn't been able to capitalize on it and gain market share. Does the product line need more investment to move into the "star" category? Is competition so strong in this market that additional funding for advertising campaigns or other marketing tactics render them useless? Is the question mark just a trend in which you can expect high growth without a lot of market share for a short time?

Once you have categorized each of your SBUs or products on the BCG matrix, you'll have a crystal-clear vision of where each stand and can identify which you should prioritize and which need to be divested.

To better understand the BCG model, let's create a simplified matrix for Apple and some of its products (see Figure 2.7). Because Apple has so many products and services, we're showing only four hardware products in this matrix.

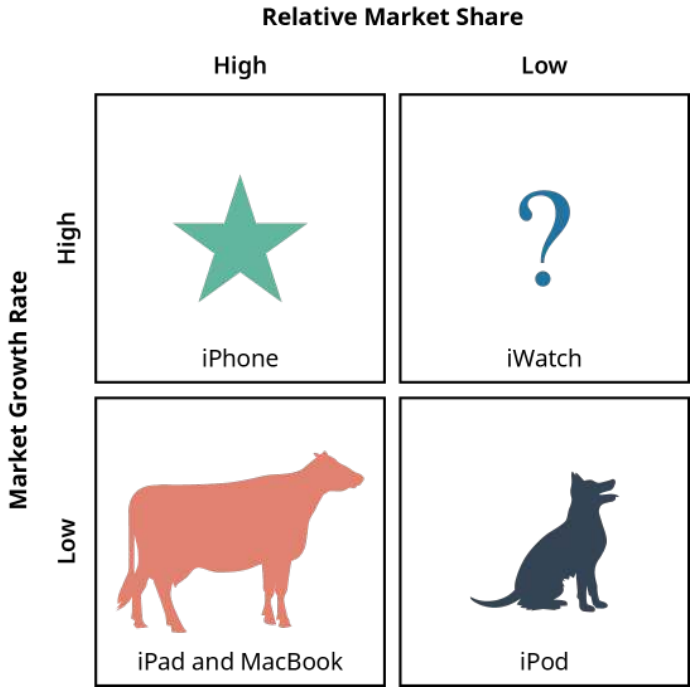


Figure 2.7 BCG Matrix of Apple's Portfolio (CC BY 4.0; Rice University & OpenStax)

In this sample matrix, we'll place the Apple iPhone in the star category. You'll recall from our discussion above that stars have relatively high market share in a growing market. Let's face it: the iPhone is the shining gem of Apple's portfolio. Even though Apple has diversified its product line, the iPhone is still responsible for 52%of the company's revenue, raking in an astounding $192 billion in 2021 (Curry, 2022).

Next, we'll put the iPad and the MacBook in the cash cow category. Remember that the BCG matrix is built on two parameters—market share and market growth. Both the iPad and the MacBook have relatively high market share compared to competitors, but the market for these products is not growing much anymore (Geoghegan, 2019). The Apple iPad had a 31.5% share of the global tablet market during the first quarter (down from 38% in the previous quarter), and the MacBook still holds popularity, garnering 15.3% of the market share (Statista, 2022). Both the iPad and the MacBook are well-established products that continue to generate substantial income for Apple, and these products require relatively little additional investment for them to remain profitable.

Let's move on to the question mark category. Remember that question marks have a low market share in a high-growth market. We'll place the Apple iWatch in this category. The iWatch has the potential to become as big of a hit as the iPhone, but the jury is still out because there are too many unknowns in the market. Global sales of smartwatches increased by 13% in the first quarter of 2022, and the Apple iWatch continues to lead in market share (Gallagher, 2022). However, Apple will need to analyze its iWatch vis-à-vis its other products to decide if it should continue to invest in the product (Gallagher, 2022).

Finally, let's move on to the dog quadrant of the matrix. We'll place the iPod in this category because market growth has slowed considerably as people use their phones to listen to music or podcasts. The iPod has experienced a shrinking market share as a result, and it wouldn't make sense for Apple to continue to invest in the iPod (Geoghegan, 2019). In fact, Apple announced in May 2022 that it would discontinue the iPod Touch, while the touch-screen model launched in 2007 will remain on sale until supplies run out (Geoghegan, 2019).

Link to Learning: BCG Matrix

Would you like to learn more about the BCG Matrix? Watch this brief video from Solve It Like a Marketer.



SWOT Analysis

SWOT is an acronym for a business's strengths, weaknesses, opportunities, and threats, and it is a useful aid for zeroing in on a feasible marketing strategy. The purpose of a SWOT analysis is really quite simple. Marketers want to identify the strengths and weaknesses in the organization's *internal* environment as well as the opportunities and threats that exist in the organization's *external* environment. It is generally presented in the format seen in Figure 2.8. You would complete the template with bullet points in each of the four quadrants.

Strengths	**Weaknesses**
Internal capabilities that may help a company reach its objectives Examples: • Strong brand identity • Technological innovations • High market share in industry	*Internal capabilities that may interfere with a company's ability to reach its objectives* Examples: • Outdated technology • Strong brand identity of competitors • High employee turnover
Opportunities	**Threats**
External factors that a company may be able to exploit for its advantage Examples: • Competitor goes out of business • Low interest rates • Favorable exchange rates	*External factors that may create barriers or challenges to the company's performance* Examples: • Rising interest rates • Pending legislation • Price war with competitor

Figure 2.8 Common SWOT Analysis Template (CC BY 4.0; Rice University & OpenStax)

A SWOT analysis will aid in taking advantage of the organization's strengths and opportunities while avoiding (or at least minimizing) weaknesses and threats to its success. Realistically, some of the factors are in the control of the company (i.e., strengths and weaknesses), but other factors are outside the control of the company (i.e., opportunities and threats). Let's consider each of these in a little more detail.

Strengths can be factors such as company patents or trademarks that hinder competitor participation in the market; a better cost structure than those of competitors; a talented, innovative staff; or strong brand recognition in the market. Strengths are internal to

the organization, and they're also positives. Questions to ask when developing this section may be: What do you do well? What unique resources can you draw on? Consider a company like Starbucks. If you were preparing a SWOT analysis for Starbucks, its strengths might include a strong brand image, solid financial performance, impressive growth in the number of stores, and an extensive international supply chain (Gupta, S. 2022).

Weaknesses are also factors within a company's internal environment, but these are hindrances to your success, so they're categorized as negatives. Weaknesses may be difficulty accessing capital or funding, outdated technology, an unmotivated workforce, weak brand recognition, or high debt levels. Let's go back to Starbucks. If you were preparing a SWOT analysis for Starbucks, some of its weaknesses may be high prices versus the competition and the limitability of its products (Gupta, 2022).

Now, we'll switch over to external factors that affect the business. Opportunities are openings for something positive to happen if (and only if) you can capitalize on them. Opportunities can be moving into a new market segment that offers improved profits (like a snack food manufacturer moving into the health foods sector), competitors that have quality or delivery problems, or impending legislation that would favorably affect your organization if you're able to capitalize on it. Once again, let's go back to Starbucks. If you were preparing a SWOT analysis for Starbucks, some of its opportunities might be expansion in developing markets, a coffee subscription service similar to that offered by Panera Bread, and the introduction of new products and holiday flavors (Gupta, 2022).

Finally, threats are anything external to your organization that can negatively impact your business. These may include supply chain problems, ongoing staffing problems, new competitors entering the market, or impending legislation that would negatively impact your organization, like tariffs. If you were doing a SWOT analysis for Starbucks, you might identify threats such as competition with lower-cost coffee sellers, tightening discretionary spending due to inflation, or the rising price of coffee beans (Gupta, 2022).

Link to Learning: SWOT Analysis

Check out this video for a very simple example of a SWOT analysis.



When preparing a SWOT analysis, it is also helpful to compare elements by ranking strengths and weaknesses (internal factors) in terms of relative competitive importance. Marketers can also rank threats and opportunities (external factors) in terms of their likelihood and magnitude (Gupta, 2022).

Strategy

Earlier in this chapter, we pointed out the differences between corporate-level strategy, business-level strategy, and functional strategy. If you're a fan of movies like *Other People's Money* or *Wall Street*, you might think corporate strategy focuses on hostile takeovers, mergers, and ruthless acquisitions.

Link to Learning: *Moneyball*

The movie *Moneyball* is about a baseball general manager assembling a team using computer analysis to hire new players. This is a great example of using analytics to inform strategy. Watch a clip of the movie here, where you see the analytics applied:



Market Penetration

When a company focuses on growing its market share in its existing markets, it is using what's known as a market penetration strategy. This approach generally entails significant expenditures in advertising and other marketing efforts to influence consumers' brand choice and create a brand reputation for the company, thereby increasing its market share.

In some mature industries (like soap, laundry detergent, or toothpaste), a market penetration strategy becomes a way of life because nearly all competitors are also engaged in intensive advertising and battle for market share. It becomes a way of life because companies fear that if they don't advertise as much as or more than their competitors, they will lose market share.

To give you an idea of how fierce the competition is with a market penetration strategy, consider Procter & Gamble, which spent $4.7 billion on advertising in 2020 (Statista, 2022a).

Product Development

As noted above, a market penetration strategy focuses on existing products and existing markets. By contrast, a product development strategy involves the creation of new or improved products to drive growth in sales, revenue, and profit. Although the advertising expenditures involved with a market penetration strategy may be significant, they often pale compared to those involved in a product development strategy. This is because product development generally requires significant investment in R&D activities (Hill & Jones, 2012).

The automobile industry provides a good illustration of the product development strategy. Car makers generally refresh their models every few years to encourage car owners to trade in their old vehicles and buy the redesigned cars with the latest tech features such as driver assist, Wi-Fi hotspots, Apple CarPlay, and Android Auto (Daniels, 2020). At the same time, all the manufacturers are spending billions of dollars developing new electric vehicle models to meet ambitious goals for phasing out gasoline-powered engines.

Another great example of a product development strategy is Tide laundry detergent. Tide has undergone more than 50 formulation changes over the past 40 years in an effort to continually improve its product's performance. The name always stays the same, but Tide has a "new and improved" formula with each new product release (Hill & Jones, 2011).

If you doubt the power of a product development strategy, the next time you go to the grocery store or supermarket, just look at how many "new and improved" products are on the shelves!

Market Development

A market development strategy involves searching for new market segments and uses for a company's products. This strategy can involve the launch of its existing products into new markets or different geographical areas. In doing so, the company attempts to capitalize on the strength of the brand name it has developed in the existing markets and find new markets in which to compete.

Facebook is a great example of a market development strategy. It's difficult to remember when Facebook wasn't a household word, but Facebook started out as a small platform that enabled Harvard University students to compare headshots. The popularity of the platform spread to other college campuses (which became all the rage in 2008!), and eventually, Facebook allowed non-students to join. It looks like the strategy worked—Facebook is now the largest social network in the world, with nearly 3 billion users and the world population at the time was 7.88 billion people, to put the numbers in perspective (Hall, 2021).

To help you better understand these strategies, let's consider each one from the perspective of one company—Harley-Davidson. If Harley-Davidson were to adopt a market penetration strategy, the company would focus on selling more Harley-Davidson motorcycles in the US market. If the company were to adopt a product development strategy, it would begin selling a new product such as biker clothing for children under the Harley-Davidson brand in the US market. Harley-Davidson is currently pursuing a market development strategy with plans to develop a new motorcycle to manufacture and sell in China. Harley-Davidson's diversification strategy might entail selling new products like children's biker clothing in China for the first time.

Product Diversification

A product diversification strategy is another tool that companies can use to improve profitability and increase sales of new products. This strategy can be utilized at both the business level and the corporate level. At the business level, marketers would expand into a new segment of an industry in which the company is already operating (Moorhouse, 2021). For example, consider Apple. The company launched its revolutionary iPhone in 2007, but it didn't stop there. It has since diversified into tablets and other technology-related products (Corporate Finance Institute Education, 2022). At the corporate level, let's consider a dine-in restaurant that adds corporate catering and perhaps a fleet of food trucks—both businesses outside the scope of its existing business.

There are three types of diversification techniques, as shown in Figure 2.9.

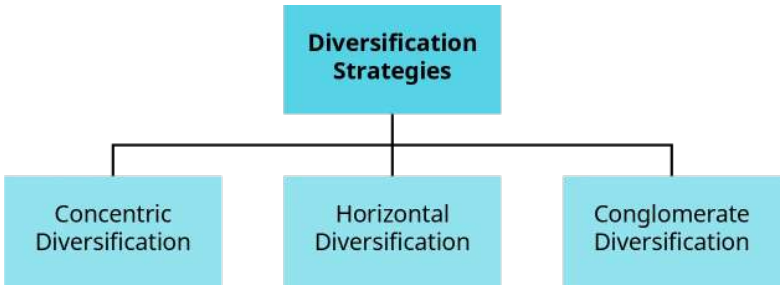


Figure 2.9 Types of Diversification Strategies (CC BY 4.0; Rice University & OpenStax)

Let's look at each of these strategies in a little more detail.

The concept of concentric diversification revolves around the addition of similar products or services to an existing business (Harappa Learning, 2021a). If a picture is worth a thousand words, then an example has to be worth even more, particularly an example to which you can easily relate as a student. As you're reading this chapter, consider book publishers, like Harper Collins, Simon & Schuster, or Penguin/Random House. These book publishers don't only print the works of one author; rather, they have hundreds or perhaps thousands of authors' works in their arsenals. These publishers will publish print books, e-books (like the one you're reading right now), and audiobooks and may even sell the rights to some of the books for film and TV adaptations, allowing them to garner additional streams of revenue for one product (Harappa Learning, 2021a).

Conversely, the concept of horizontal diversification involves making available to existing customers new and perhaps even unrelated products or services so that you can garner a larger customer base (Indeed, 2021). For example, consider a company that produces dental hygiene products like toothbrushes and dental floss. To increase sales to existing customers, the company may decide to introduce into the market a line of oral irrigators or teeth whiteners. These products are new to the company, but they still serve the same customer base as its existing products.

Finally, conglomerate diversification takes horizontal diversification one step further. Conglomerate diversification involves the development and addition of new products or services that are significantly unrelated. You're not only introducing a new product, you're introducing a new product completely unrelated to your existing line of business (Harappa Learning, 2021b). Consider General Electric when looking for an example of conglomerate diversification. General Electric started out as a lighting business, but over the years, it has diversified into medical devices, household appliances, aircraft engines, financial services, and more. That's taking conglomerate diversification to a whole new level!

Link to Learning: Blue Ocean Strategy

Learn about market-creating strategies known as the Blue Ocean strategy from *Harvard Business Review*, where it uses Cirque du Soleil as an example.



Knowledge Check

It's time to check your knowledge of the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Marcus is preparing a SWOT analysis for the health club he owns. One of the factors he has identified is that the health club is the only facility in the area that offers water aerobics classes. In terms of a SWOT analysis, how would this factor be characterized?

a. Strength
b. Weakness
c. Opportunity
d. Threat

2.

What key metrics does the BCG matrix use to show the relative attractiveness of different offerings?

a. Market share and market growth rate
b. Market size and market share
c. The ratio of dogs to cash cows in the product portfolio
d. The potential for question marks to cross over and become stars

3.

Hoffman Enterprises has a portfolio of businesses in various unrelated industries. One of its strategic business units (SBUs) has high market share in a low-growth industry. How would this SBU be characterized in terms of the BCG matrix?

a. Star
b. Dog
c. Cash cow
d. Question mark

4.

Sanjay is creating a SWOT analysis for the vegan restaurant he owns in a small college town. Until recently, there has been only one competitor in the vegan market, but that restaurant has recently closed temporarily due to health code violations. How would this development be characterized in terms of the SWOT analysis?

a. Strength
b. Weakness
c. Opportunity
d. Threat

5.

Which strategy involves the creation of new or improved products to replace existing ones to improve a company's competitive position and sales?

a. Market development
b. Product diversification
c. Horizontal diversification
d. Product development

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2.4: Purpose and Structure of the Marketing Plan

Learning Objectives

By the end of this section, you will be able to

- Explain the purpose of a marketing plan
- List and discuss elements that should be included in a marketing plan

Purpose and Structure of a Marketing Plan

A company's marketing plan (Figure 2.10) is undoubtedly one of the most important planning tools in business. You might think it's an activity that generates an impressive, colorful document that sits in a desk drawer until the next time it gets revised, but you would be wrong.

If you're a new business seeking funding, the bank will want to see and understand your marketing plan before parting with funds. If you have an existing business that you want to grow, investors will likely go over your marketing plan with a fine-tooth comb to understand how additional funding will generate a positive return. Even if you're not seeking external funding, you still need a marketing plan to help you establish and achieve your sales and marketing goals most effectively. That's because the marketing plan will set forth the specific actions that marketing team members need to take to reach target customers, build brand awareness, and, of course, generate increased revenue.

If you like sports analogies, think about marketing plans as being akin to playbooks in football. A football playbook sets forth what needs to be done to win the game. The playbook breaks the team's strategy into actionable plays and defines who is responsible for what to win the game. That is exactly the purpose of a marketing plan as well!



Figure 2.10 A marketing plan breaks a company's strategies into implementation steps and assigns responsibilities. (credit: "Marketing Plan Presentation Chalkboard Slide" by PLEXKITS/flickr, Public Domain)

Structure of a Marketing Plan

Do a quick Internet search on "structure of a marketing plan," and you'll get countless results. To make this even more confusing, there is little agreement within marketing about the precise structure of a marketing plan. Some marketing "experts" argue for 10 components, others for 5 or 6. For our purposes in this book, we will use a 12-element marketing plan comprising the elements shown in Figure 2.11, each of which will be discussed in detail.



Figure 2.11 Elements of a Marketing Plan (CC BY 4.0; Rice University & OpenStax)

If your professor has assigned the semester-long marketing plan template assignment, these next sections will provide you with excellent guidance for completing each of the sections.

Executive Summary

As the name suggests, the executive summary of your marketing plan provides those reviewing your plan with a brief overview (usually one to two pages). It will give the reader a quick synopsis of the main parts of the plan—an overview of what your company has done, what it plans to do, and how it plans to do it.

Think of the executive summary as an "elevator pitch" of the plan. If you're not familiar with elevator pitches, they're persuasive, concise introductions that provide the listener with the information they need to know within just a short time—usually the length of the average elevator ride.

The executive summary of your marketing plan should succinctly cover the main parts of the plan. It should contain information about the company, brand, products/services, the market itself, and the overall marketing direction of the company.

It's important to keep in mind that a marketing plan is typically written in sections separated by headings or subheadings. That's not the case with the executive summary. You'll write the executive summary as a series of paragraphs, and each paragraph will focus on a different section of the marketing plan.

Instead of talking about the executive summary strictly in abstract terms, let's see how this plays out in an example.

- **Introduction.** In this paragraph, you're going to provide the reader with an explanation of what they can expect. You're providing the context for the plan to make the subsequent parts of the plan easier to understand. In the introduction, briefly

explain the plan, its purpose, and the key benefits to potential customers. Remember the KISS rule— **k**eep **i**t **s**hort and **s**imple. Here's an example that might give some insight on what the introduction should look like:

> *This marketing plan is presented for ABC Company, a manufacturer of electronic components for a variety of industries. We have developed a new product for the health care industry, and this marketing plan will demonstrate that ABC Company has a unique opportunity to expand into this dynamic, growing market.*

- **Description of Company and Team.** In this paragraph, you're going to briefly describe your business. Be sure to include a succinct synopsis of the company's history, legal structure, and customer base. You'll also want to address a broad overview of sales figures. You will also list the key players involved in the business, including their positions within the company; their responsibilities, skills, and experience; and their role in achieving your marketing goals. This is particularly important if your company is seeking funding. The purpose of this section is twofold: (1) to convince lenders and/or investors to provide requested funds, and (2) to prove that you have the right team on board to capitalize on the opportunity you have defined. Once again, let's see how this section might appear in ABC Company's marketing plan. Please note that we've only listed two key members of the team for the sake of brevity, but you may include others:

> *ABC Company was founded in 2002 and is based in Park City, Utah. The company produces electronic components for a variety of industries. When the company was founded, it produced electronic apparatuses primarily for the automotive industry. Its product line has expanded over the past 20+ years to include electronic apparatuses for the appliance and heating, ventilating, and cooling (HVAC) industries.*
>
> *Key Team Members:*
>
> *Khadija Simone, founder and CEO—Khadija has over 30 years of experience in the electronic apparatus industry, having managed divisions of two Fortune 500 companies before founding ABC Company. Khadija has a BS in electrical engineering from Purdue University and a master of business administration from the University of Chicago.*
>
> *Tanasha Turner, vice president of marketing—Tanasha has 20 years of sales and business development experience from working with several start-up companies that she helped grow into large businesses. She joined ABC Company in 2016 and has spearheaded the entry of the company into the appliance industry. Tanasha has a BA in marketing from the University of Pennsylvania and a master's in business marketing from California Coast University.*

- **Description of Market Factors and Trends.** In this paragraph, you will set forth a brief description of the current marketplace and industry sectors within which you sell your products and/or services, the primary trends affecting and influencing them, and the innovations that are currently taking place within the market. Let's look at ABC Company's example:

> *There are several large players in the electronic apparatus industry, including EAC Industries and Antwell Industries, as well as a few smaller companies that sell similar products to the automotive, appliance, and HVAC industries. The rapid pace of innovations in the industry is stimulating demand for newer and faster apparatuses. Digital technologies such as 5G mobile communication*

> *networks and 3D printing are expected to aid in the development of innovative electronic apparatuses.*

- **Description of Products or Services Being Marketed.** In this paragraph, you will describe the key features and benefits of the new product being introduced in the marketing plan and outline its unique selling propositions to demonstrate how your company's products differ from or are superior to those of your competitors. You'll recall that ABC Company has developed a new product aimed at the healthcare industry, so this portion of its executive summary might look something like this:

> *As noted above, ABC Company has created a new electronic apparatus for the health care industry. The success of this product would provide the company with an inroad to a new industry that uses the sophisticated technology developed by the company. This new product would provide the health care industry with improved efficiencies and cost savings vis-à-vis those that are offered by existing products on the market. Although there are similar products designed for other industries, there are currently no competitors for this type of product designed specifically for the health care industry.*

- **Description of Customer Base and Related Marketing Activities.** In this paragraph, you will describe the key aspects of the target audience for your product and/or service. Where are you going to find your target customers? How will you reach them in terms of a promotional strategy? What methods do you intend to use in distributing your product or service? Let's look at how this paragraph might read in our hypothetical marketing plan:

> *The target market for ABC Company's new product is large health care providers, including hospitals, research laboratories, and clinics. This marketing plan will outline its campaign to reach this target market through a combination of direct sales and social media marketing.*

- **Financial Overview.** In this paragraph, you will define the key financial information related to both the short-term and long-term marketing activities set forth in the plan. If you are an existing company (like ABC Company), this might be as simple as highlighting sales growth over the last year and the anticipated marketing budget for the new product venture. Let's take a look at how this might look for ABC Company:

> *ABC Company has experienced significant sales growth in the appliance and HVAC industries since the company's inception in 2002. Its sales revenue from these industries last year exceeded $23.4 million. Our marketing budget for the coming year in connection with entry into the health care industry is estimated to be $150,000.*

- **Summary of Overall Objectives and Strategies.** In this final paragraph, you will briefly describe the plan's goals and the strategies the company will employ to achieve those goals. Remember that this executive summary is your marketing plan's "elevator pitch," so you'll want to conclude with a couple of sentences that entice the reader to continue to read your plan. Let's look at how this might play out for ABC's marketing plan:

> *ABC Company has developed a marketing plan that will enable it to quickly make inroads into the health care industry and become the premier provider of electronic apparatuses to this growing market. We intend to use our experience and expertise in selling to the appliance and HVAC industries to showcase how this electronic apparatus can benefit the health care industry.*

Mission Statement

The next section of your marketing plan will be your company's mission statement. You'll recall from Section 2.1 that a mission statement is an action statement that clearly and concisely declares the organization's purpose and how it serves its customers. It defines the what, why, and who of the organization. Once again, a picture (or, in this case, an example) is worth a thousand words. Earlier in this chapter, we examined the mission statements of a couple of well-known businesses, so let's take a look at some mission statements for some other well-known companies:

- Pinterest: "Help people discover the things they love, and inspire them to go do those things in their daily lives"
- Spotify: "To unlock the potential of human creativity by giving a million creative artists the opportunity to live off their art and billions of fans the opportunity to enjoy and be inspired by it"
- BBC: "To act in the public interest, serving all audiences through the provision of impartial, high-quality and distinctive output and services which inform, educate and entertain"

Keep in mind that most mission statements are one to three sentences, *almost* never exceeding 150 words. You want to be succinct in letting people know what you do and who you do it for.

But how do you write a mission statement? You might start by asking yourself four fundamental questions—what does the company do, how does it do it, who does it do it for, and why does it do what it does? The answers to these questions will likely give you enough information to synthesize and condense it into a meaningful mission statement. Remember that your mission statement should be more than a meaningless string of "feel good" business jargon. It should be ambitious but realistic. It should be clear and concise. It should be focused on what the company does for its customers. Finally, it should keep employees focused on the organization's objectives.

SWOT Analysis

The next section in your marketing plan will include a SWOT analysis. We've covered the concept of a SWOT analysis in some detail earlier in this chapter, so we won't review it here. Suffice it to say that the SWOT analysis as part of your marketing plan is crucial in identifying key internal and external influences in your company's current position so that you can take advantage of the strengths and opportunities, mitigate the threats, and address your internal weaknesses.

Objectives and Issues

As noted earlier in this chapter, marketing plan objectives should be SMART—specific, measurable, actionable, realistic, and time-bound. Within your marketing plan, these objectives should be written so that they communicate precisely what needs to be achieved and who is responsible for each activity. For example, if you were writing this section of the marketing plan for ABC Company, an objective statement such as "Increase revenue by introducing a new product in the health care industry" would be too generic and not actionable. How much do you want to increase your market share, and during what period? A better objective may be "Generate $1.7 million in sales in the health care industry by the end of the next fiscal year." Remember that writing specific goals and objectives can help you more clearly define and address the issues outlined in your marketing plan. You should also remember that the marketing plan objectives aren't limited to just revenue. You may have objectives such as increasing leads, increasing in-store foot traffic, and increasing conversion rates. Just make certain that each of these objectives is SMART.

Market Segmentation and Target Market

Essentially, what you will define in this section of the marketing plan is your target audience and your most likely buyers. We will cover market segmentation and targeting in more detail later in this textbook, but we'll give you a sneak peek into these concepts. Market segmentation is the process of dividing a target market into smaller, more defined categories of people or businesses with common needs and/or wants who are expected to respond similarly to a marketing action. Ultimately, the purpose of segmenting a market is to highlight the differences between groups of customers so that you can decide which group(s) upon which to focus your marketing efforts and resources—that's your target market.

Your marketing plan should include a description of the market for the product or service, the segments in this market, and how the plan will address the target market strategy.

Buyer Personas

The intricacies of buyer personas will also be covered in more detail in a later chapter, but your takeaway here is that a buyer persona is a semi-fictional representation of your "ideal customer" that helps you understand and relate to the audience to which you want to market your product and/or services. Buyer personas help marketers visualize the person to whom the company is selling so that marketing messages can be fine-tuned because brands that feel "human" to their target market usually succeed in building a rapport with them, improving the brand reputation for both existing and new customers.

This section of the marketing plan should address who your buyer personas are (and you can have several). These are one-page visual profiles outlining the demographics of your ideal customer, such as age, gender, motivations, and needs. For example, let's assume that your company sells outdoor apparel and hiking equipment. One of your buyer personas may be "On-the-go-Evan," a Gen Z male who enjoys being outside and participating in noncompetitive sports and relies on blog posts, influencers, and reviews to get unbiased information about the equipment he needs (Sickler & Lane, 2020).

Buyer personas aid marketers in bringing the target customer to life in a way that both inspires marketing strategies and prepares sales teams for conversations with customers that connect them in a meaningful way. How many buyer personas should you create? According to LinkedIn, although there isn't a "magic number," in most cases, three to eight buyer personas are adequate (Zou, 2016).

Link to Learning: Creating Buyer Personas

Creating buyer personas is an integral part of marketing, and it can be fun. For more information on steps to creating buyer personas, check out this tool from HubSpot that describes buyer personas and provides an interactive tool for creating them.

Positioning

Similarly, positioning will be covered in more depth in a later chapter. Remember that you first will segment the market by dividing it into distinct groups of customers and determined which customer group(s) you want to target. Positioning now defines where your product or service fits into the marketplace and why it is better than your competitors' products.

Product positioning is typically illustrated on a perceptual positioning map that uses two determinant attributes (those factors customers use in making their purchase decision) on the vertical and horizontal axes, and the marketer places his or her product offering on the map, along with those of the major competitors.

Once you have developed the map, you will have a clearer idea of where your product or service stands in relation to the competition. The questions to address in your marketing plan might include the following:

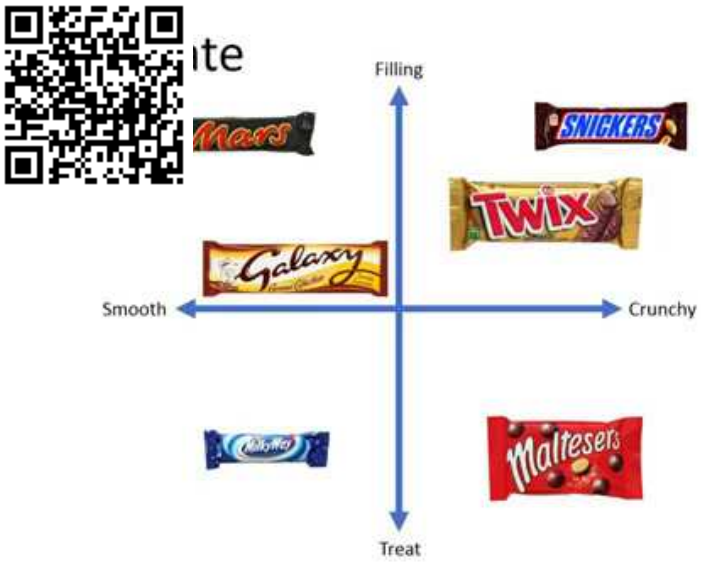
- Do consumer attitudes toward your product or service match what you want them to think about it?
- Do consumer attitudes toward your competitors' products or services match what you perceive?
- Who are the competitors that consumers perceive as offering products or services close to yours?
- Are there holes or gaps in the map, indicating the potential for new offerings?

Link to Learning: Creating a Perceptual Positioning Map

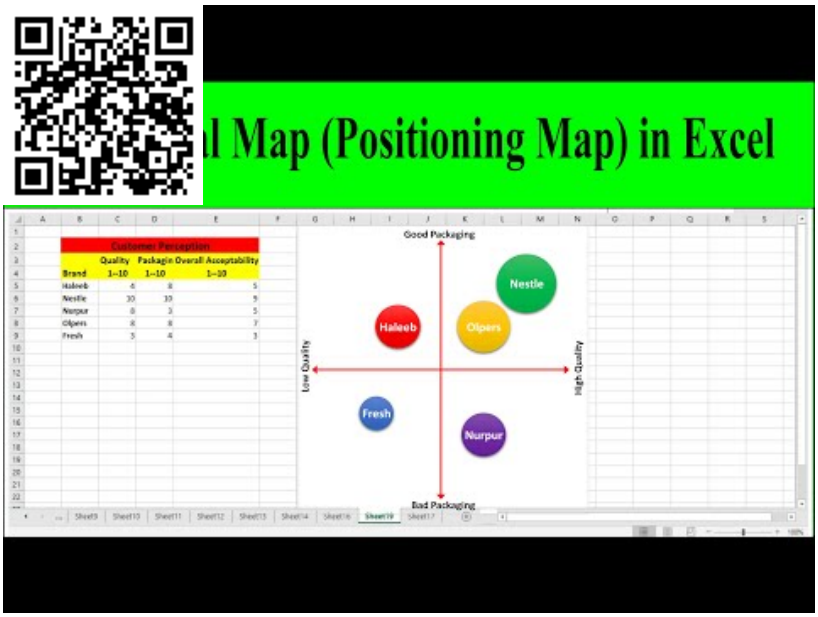
See an example of a perceptual positioning map as applied to the fast-food industry:



An important aspect of these maps is understanding how customers perceive your products and your competition. This video shows you how to process and map this information.



Check out this example using chocolate. If you're interested in using Excel data to create the map, watch this video example:



Current Marketing Situation

This section of your marketing plan should provide the reader with a clear description of the current state of the marketplace, including your target market and the competitive environment. It should include a synopsis of the research into and analysis of your target market, your competitors, challenges in the marketplace, and the company's competitive differentiators. Some of the key items to address in the plan are as follows:

- **Market Description.** This isn't intended to be a comprehensive list, but this section should address things such as statistics about the size of your target market; whether it is growing, shrinking, or staying the same; whether it is changing; and why (Gaebler Ventures, 2022).
- **Product Review.** The product review section of your marketing plan summarizes the main features of your company's products, including information about sales, price, and gross margins.
- **Competitive Analysis.** This section should discuss of your top competitors and how they fare in the marketplace vis-à-vis your company's products and/or services. This typically involves researching major competitors to glean insights into their products or services, sales, marketing tactics, product quality, pricing, market share, and distribution.

Marketing Strategy

Now, let's get to the heart of the matter. This section of the marketing plan essentially sets forth the broad marketing strategy or game plan for achieving the objectives previously set forth in the plan. It should consist of specific strategies for target markets, positioning, the marketing mix (i.e., product, price, place, and promotion), and anticipated marketing expenditure levels (iEduNote, 2024).

- **Product Strategy.** This is the "road map" that you'll use to develop your product(s) or features(s), including all tasks needed to achieve the objectives set forth in the marketing plan. The product strategy essentially outlines how the product(s) or service(s) will benefit the business, what problem it will solve, and the impact that it will make on customers and the business. It's only when this strategy has been outlined in straightforward terms that it can act as a baseline upon which you can measure success before, during, and after production (Fontanella, 2022).
- **Pricing Strategy.** Pricing will be covered in a later chapter in this text, but be aware that pricing is one of the key components of any marketing plan. Not only will it determine how much revenue (profit) you will earn, but it will also play a key role in positioning your product in the minds of consumers. The "right" pricing strategy conveys the message you want to get across to your target market regarding quality and features vis-à-vis the competition because price is often used to determine the perceived (not actual) quality of the product or service. Some of the factors you'll want to consider in developing this section of your marketing plan are:
  - setting a price that sends the right message in terms of quality and value in the minds of your target market,

  - setting a price that supports your promotion strategy (to be covered below), and
  - setting a price that maximizes profit (PriceBeam, 2017).
- **Promotion Strategy.** Your promotion strategy sets forth the tactics you intend to implement in your marketing plan to increase demand for your product(s) or service(s). List the methods you will use to gain awareness and interest in your product from those in your target audience. Methods of reaching potential consumers abound—company websites, social media networks, trade shows, and radio/television/website advertising. You'll want to list the advantages and disadvantages of each method and indicate why and how much it will cost to employ the method(s) you have selected.
- **Distribution Strategy.** Your distribution strategy describes how customers in your target market will purchase from you. Will they buy directly from your website, from a storefront, or through distributors or retailers? What are the costs involved in this type of distribution, and why do you believe your distribution strategy will enable you to get the right product into the hands of the right consumer at the right time?

Action Programs

You're getting to the end of the plan (finally). The marketing strategies outlined in the section above should now be translated into specific action programs that indicate what is to be done, when it is to be done, by whom it will be done, and the cost involved. The action program should list when activities will be started, reviewed, and completed.

Budgeting Concerns

The action plans outlined in the section above should enable you to make a supporting marketing budget that is essentially a projected profit-and-loss (P&L) statement. If you've previously taken an accounting course, you'll know that a P&L statement summarizes the revenues, costs, and expenses incurred during a specified period.

On the revenue side, this statement should indicate the forecasted number of units to be sold during the period outlined in the marketing plan and the average net price for revenues. On the expense side, this statement should indicate the cost of production, physical distribution, and marketing expenditures (iEduNote, 2024).

Controls to Monitor Progress

Controls is the last section of the marketing plan. This section will outline the control methods that will be utilized to monitor the action programs outlined in the plan. The reason you'll want to monitor these metrics during the period of the marketing plan is to see where things may have fallen outside the desired range, at which time you'll want to dig into the details, perform an analysis of the root cause of the problem(s), and make adjustments to get back on track.

Link to Learning: Marketing Plans

There are numerous online examples of marketing plans. To be a great marketer, it would be wise to review and study marketing plans and how they tell a unique company story. Here are several to check out:

- Shopify blog: "7 Inspiring Marketing Plan Examples (and How You Can Implement Them)"
- University of Illinois
- Visit Baton Rouge
- Bizfluent example for a generic restaurant

There's also a free marketing plan template available from HubSpot.

Knowledge Check

It's time to check your knowledge of the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

In which section of the executive summary of a marketing plan would you describe the current marketplace and industry sectors within which you sell your products or services and the innovations currently taking place within the market?

a. Description of products or services being marketed

b. Description of customer base and related marketing activities
c. Description of company and team
d. Description of market factors and trends

2.

In a SWOT analysis, which factors are internal to the organization?

a. Strengths and opportunities
b. Weaknesses and threats
c. Strengths and weaknesses
d. Opportunities and threats

3.

What is a perceptual map, and how is it used?

a. A perceptual map indicates the relative strength of competitors in the market segment.
b. A perceptual map indicates the relative market share and market growth of a product portfolio.
c. A perceptual map illustrates product positioning vis-à-vis the competitors.
d. A perceptual map displays the product, pricing, promotion, and distribution strategy of the product or service.

4.

In which section of the marketing plan would you identify key internal and external influences on the company's current position?

a. Objectives and issues
b. SWOT analysis
c. Buyer personas
d. Current marketing situation

5.

In which section of the marketing plan would you include a competitive analysis and discussion of the company's top competitors?

a. Positioning
b. Target market
c. Mission statement
d. Current marketing situation

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2.5: Marketing Plan Progress Using Metrics

Learning Objectives

By the end of this section, you will be able to

- Define marketing metrics.
- Explain key performance indicators (KPIs).
- Provide examples of business objective KPIs.
- Characterize sales/revenue generation KPIs.
- Provide examples of market share KPIs.
- Classify and discuss customer support KPIs.

Marketing Metrics Explained

Running even a modest-sized organization can involve a lot of moving parts. It is often helpful to focus on key measurable (quantifiable) values or variables that marketers aim to achieve within a specified period—known as marketing metrics. In the same way that a doctor measures height, weight, temperature, blood pressure, and other vital signs to assess the health of a patient, a marketer uses marketing metrics to measure marketing performance.

Key Performance Indicators (KPIs) Explained

Have you ever pondered what life was like without the Internet? You can instantly type a term into a search engine, and within seconds, you'll have hundreds of thousands (or even millions) of results. It's estimated that, as of 2020, there were 40 zettabytes of data available on the Internet. (If you're curious, a zettabyte is approximately 1 trillion gigabytes) (HealthIT, 2024). That's both a blessing and a curse. There's so much information out there that sometimes it becomes difficult to focus on the information you really need.

The same is true with marketing metrics. On one hand, a marketer can examine virtually every aspect of the customer journey, gleaning a fully detailed picture of what is going on in every stage; on the other hand, the sheer amount of data the metrics can yield can be overwhelming. Metrics tell us what is happening at any point in time without context as to why it is happening. That's why savvy marketers should have a solid understanding of metrics to draw out the full story. The way the marketer gets to the marketing metrics that yield the information that's needed is by identifying and maintaining a focus on the data that counts—the business's key performance indicators (KPIs).

Although the terms *metrics* and *KPIs* are often used interchangeably, there is a subtle and very important difference. Metrics measure the performance of a particular process; KPIs are directly tied to business objectives and have targets and specific time frames for achieving those targets (Palmer, 2020). In a nutshell, think about KPIs as being a "scorecard" for company health.

Marketers typically establish goals and objectives related to KPIs because it's an easy way to track progress. If the metrics remain within the forecasted range, marketers can focus on other more troubling elements of the SBU. On the other hand, when the metrics fall outside of the desired range, it's time to examine closely where the trolley is coming off the tracks, perform a root cause analysis, and make adjustments to get back on track.

The trend in marketing is to use real-time marketing dashboards that provide instant visibility of the metrics you've selected to track. It's a quick and easy overview of where you stand and your progress toward your goals. It's also a huge time saver because instead of poring over spreadsheets and multi-page reports to assess progress, a marketer can simply refer to the dashboard to obtain the information needed (RudraSoft, LLC, 2017).

Link to Learning: KPIs

For more information about marketing KPIs, take a look at this brief video from SMA Marketing about why marketing KPIs are vital for a business. Here are additional resources you may find helpful to learn about KPIs:



- Toucan Toco: "The Most Important KPIs to Track for Improved Marketing Efficiency"
- Vital: "The 16 Marketing KPIs You Should Be Measuring (but Probably Aren't)"
- HubSpot: "15 Key Performance Indicators to Help Improve Your Marketing"
- Marketo Engage blog from Adobe Experience Cloud Team: "Prove Your Worth: 10 KPIs for Marketers"

Examples of Business Objective KPIs

There are a multitude of KPIs that marketers can choose to manage business objectives. The actual KPIs they select depend on the nature of the process, the type of information available, and the team. The important concept is to identify the "key" indicators that drive success. Instead of developing information from a laundry list of 300 KPIs, it's preferable to identify a handful of the most useful KPIs that allow for the effective management of information. In other words, sometimes less is more, and instead of sifting through mountains of statistics (remember all those zettabytes of information on the Internet), you can choose from a small subset of measurements to review regularly. Let's look at a few that you may wish to consider, as shown in Figure 2.12.

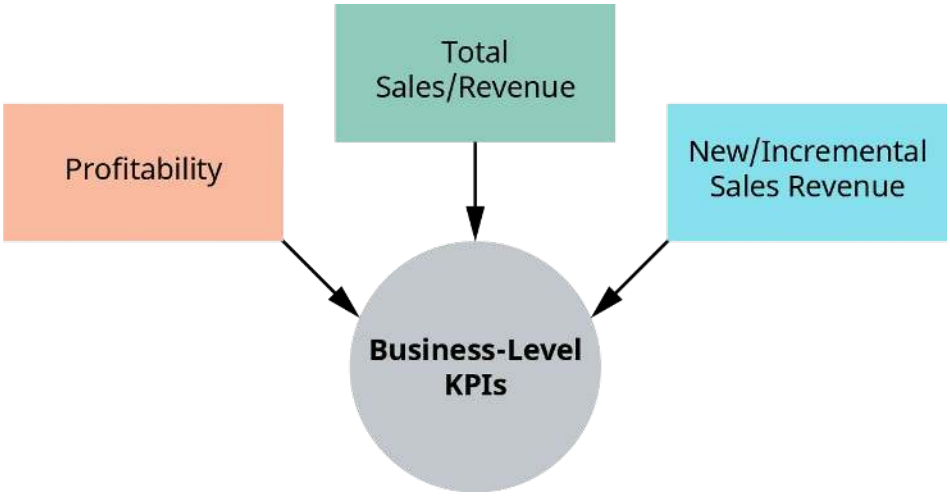


Figure 2.12 Business-Level KPIs (CC BY 4.0; Rice University & OpenStax)

Total Sales/Revenue

Sales and revenue growth is a KPI used to determine whether sales and revenue are increasing or decreasing over a specified period. It's calculated by dividing revenue generated during one time period by revenue generated over a subsequent period, subtracting 1, and then multiplying by 100 to obtain a percentage (Porte Brown, 2022). Here is the formula:

$$\text{Sales versus Revenue } = (\text{mfrac})$$

Revenue 2021 Revenue-1 × 100=xx%Sales versus Revenue = 2022 Revenue2021 Revenue-1 × 100=xx%

For the sake of putting numbers to the formula so you can see how it actually works, let's assume that 2022 revenue was $1.8 billion, compared to $1.4 billion in 2021. If we populate the formula with these numbers, it looks like this:

$$\text{Sales versus Revenue} = \left(\frac{\$1.8\text{B}}{\$1.4\text{B}}\right) = 1.2857$$
$$1.2857 - 1 = 0.2857$$
$$0.2857 \times 100 = 28.57\% \text{ Revenue}$$

Growth Sales versus Revenue = $1.8B$1.4B = 1.28571.2857 - 1 = 0.28570.2857 × 100 = 28.57% Revenue Growth

As a general rule, the metric would be used to suggest revenue growth over the period of a year. However, for companies whose revenue is affected by seasonality (such as companies that produce snow blowers or bathing suits), it may make more sense to measure growth in revenue on a monthly or seasonal basis, compared with the previous season (Porte Brown, LLC, 2024).

New/Incremental Sales Revenue

Marketers are also keenly interested in understanding how many new versus repeat customers a business has. The bottom line is that it's typically more expensive to acquire initial sales than repeat sales, and repeat customers (referrals) can be a powerful source of new customers. Accordingly, if most sales are from return customers, that may point to a sign of weakness in a promotional program or other marketing activity.

Profitability

Gross margin as a percentage of sales is one of the most closely watched KPIs at most organizations. Gross margin is the percentage of sales revenue that the company can convert into gross profit, and it's generally a good measure of how efficiently the company generates gross profit from sales of products or services.

It stands to reason that if the gross margin of a product is negative, it will be difficult to make money at *any* level of sales. Thus, the higher the gross margin, all other elements being equal, the less sales are required to break even.

Examples of Sales/Revenue Generation KPIs

One of the most important metrics for any organization concerns sales/revenue. Let's look at some of the KPIs that can be helpful to marketers, as illustrated in Figure 2.13.

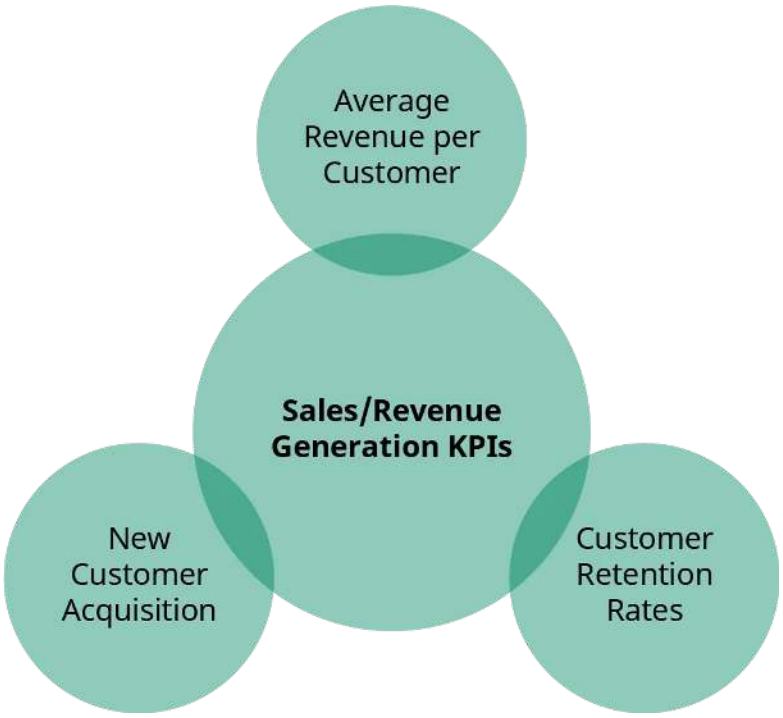


Figure 2.13 Sales/Revenue Generation KPIs (CC BY 4.0; Rice University & OpenStax)

Average Revenue per Customer (ARPC)

This KPI measures the amount of money a company expects to generate from an individual customer, and it's a relatively simple calculation: total revenue divided by the number of customers. This KPI comes in handy because it assists the marketer in identifying trends among different periods and segments of customers. A low ARPC score can point to several reasons: you're not targeting the right customer, or perhaps your product offering is priced too low. So, marketers must determine how to extract more revenue from the product—whether through different value add-on products or by targeting a more valuable customer base (Peel Insight, 2023).

New Customer Acquisition

As the term suggests, customer acquisition refers to bringing in new customers. It's the action of bringing customers down the "marketing funnel" from brand awareness to the purchase decision. Closely related to this KPI is customer acquisition cost (CAC)—in other words, the total cost of acquiring those customers, which is calculated by adding up the cost of sales and marketing efforts and then dividing by the number of new customers acquired during a specific period.

Customer Retention Rates

As we've pointed out above, it's cheaper to keep a customer than it is to find a new customer. The KPI for customer retention rates measures the percentage of customers in the current period who have purchased in the past. This KPI is particularly powerful when the product or service is subscription-based or requires a regular recurring purchase (e.g., cell phone monthly fee, electricity bill, etc.).

Examples of Market Share KPIs

Of course, it's important to track the sales/revenue KPIs mentioned above, but they don't tell the whole story. It's also important to track how the organization is faring in the marketplace compared with its competitors.

Let's consider a scenario to explain this further. Let's assume your organization is in a highly competitive, fast-growing industry. Your marketing dashboard shows that your organization's sales increased 10% over the last fiscal year. On the surface, that might be a positive—who doesn't want sales to increase by 10 percent? However, with the right KPIs on your marketing dashboard, you might begin to see that all isn't as good as you initially surmised because the market as a whole grew at 20% during that same period, and the sales of your major competitor grew 25 percent. That paints a different picture, doesn't it?

So, let's examine some market-share KPIs that can paint a broader picture for marketers.

Market Share in Category

A company's market share in category (sometimes known as category share) is its sales as a percentage of all products in a category that the company sells. It is calculated by dividing the company's sales by the total sales in a category (Mansueto Ventures, 2020). For most companies, market share is an important KPI because it easily translates into positive or negative performance. For example, increases in market share typically indicate that a company is doing more business, whereas declining market share suggests an undesirable outcome (Momentus Technologies, 2021).

Relative Market Share

Relative market share indexes a firm's or brand's market share against that of its leading competitor. It's more complicated than industry market share because it compares your organization with your rivals rather than with the industry as a whole (Sherman, 2020). How is it calculated? That's best explained using an example. Let's assume that you own an appliance store in town, one of a handful of stores in town that sell major appliances. Your sales bring in $1 million per year for a 5% market share. Now imagine that the top appliance store in the area sells $1.5 million worth of major appliances a year, a 13% market share. To determine your relative market share compared with this competitor, divide your share by the competitor's:

$$5\% \div 13\% = 38\% \text{ Relative Market}$$

Share 5% ÷ 13% = 38% Relative Market Share

To get an even more in-depth picture, you can do the same for the smaller competitors in the market. This process would give you a slightly different perspective on market share growth. For example, in some competitive markets, a 5% share might make you one of the major players; however, in the example shown with the appliance stores, it appears that you're a long way from achieving the market share of your leading competitor (Sherman, 2020).

Examples of Customer Support KPIs

In a perfect world, companies would have products with zero defects and the same number of customer issues with those products. However, we all know we don't live in a perfect world, and zero defects and zero customer issues simply aren't realistic expectations. There will be customer issues, and the key to retaining loyal clients is identifying and resolving those issues quickly. So, let's look at some customer support KPIs that matter to marketers, as illustrated in Figure 2.14.

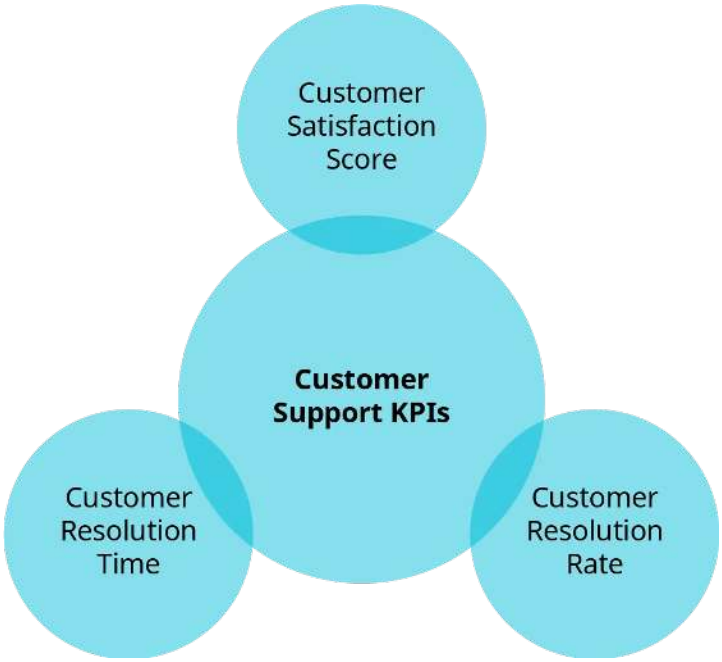


Figure 2.14 Customer Support KPIs (CC BY 4.0; Rice University & OpenStax)

Customer Satisfaction Score

Customer satisfaction score (CSAT) is the primary metric for customer satisfaction. One way to measure CSAT is by sending out a customer satisfaction survey asking customers to rate their satisfaction on a scale of 1 to 5, with 1 being very unsatisfied and 5 being very satisfied. The calculation from that point is simple: take the number of satisfied customers (i.e., those who rated their satisfaction as either 4 or 5), divide that by the total number of responses, and multiply that number by 100. That formula will yield the percentage of customers who consider themselves satisfied—your CSAT score (Clarke, 2022).

Let's put some numbers to this formula to illustrate the point. Imagine that you've emailed a customer satisfaction survey to 15,000 customers and received 1,500 responses. Of those responses, 308 customers rated their satisfaction as "very satisfied," 447 rated their satisfaction as "satisfied," and the remaining 745 customers rated their satisfaction as "neutral," "dissatisfied," or "very dissatisfied." The calculation of the CSAT score would look like this:

$$(308 + 447) \div 1,500 = 50.33\%$$

Customer Resolution Rate

As we pointed out above, no matter how carefully you've planned, and no matter how well you've trained your staff, things will inevitably go wrong with customers at some point. That's the harsh reality of dealing with customers. However, most (or at least many) customers will forgive a mistake if the organization acts quickly to resolve the problem to the best of its ability. Once again, the calculation for this KPI is relatively uncomplicated. To calculate the customer resolution rate, subtract the number of unresolved cases from the total number of cases and then divide the sum by the total number of cases. The fewer the unresolved cases, the higher your customer resolution rate (Paul, 2021).

Customer Resolution Time

Closely related to the customer resolution rate is customer resolution time because most customers expect immediate assistance. The longer it takes to resolve a customer issue, the less satisfied a customer will be. There are a couple of ways to calculate this. First, you could measure average resolution time by taking the sum of all case resolution durations and dividing by the total number of customer cases. Alternatively, you could measure the first response time. This is the average time it takes from the time a customer reaches out for assistance and the length of time it takes for a customer service representative to respond (Paul, 2021).

Marketing in Practice: Classic Cleaners and Automated Reporting



Figure 2.15 Classic Cleaners wanted real-time data that would help it better understand its target customers and how it could use marketing to earn more business from them. (credit: "DSC_2665.JPG" by Banzai Hiroaki/flickr, CC BY 2.0)

Classic Cleaners is a provider of dry cleaning and laundry services based in Indianapolis, Indiana (see Figure 2.15). The company has 18 locations (Classic Cleaners, 2024). Like many businesses, Classic Cleaners always struggled with the question, What does my customer *really* want? The company wanted an easy solution to using real-time marketing to track and measure results and obtain insights that would aid it in making data-driven decisions.

Enter TBH Creative, hired by Classic Cleaners to transform its marketing efforts through automating reporting. TBH Creative worked with the company to set up a marketing dashboard to monitor statistics and analytics, complete an audit to determine

which marketing efforts were effective, improve its website, and more (TBH Creative, 2020).

As Classic Cleaners' General Manager Steve Arnold stated, "We . . . wanted to start tracking our customers more thoroughly so we could identify who our target customers are, what types of messaging resonates with them, and how we could use marketing to earn more business from these customers" (TBH Creative, 2020).

Marketing Dashboard: Customer Lifetime Value (CLV)

Customers are not all the same. Some customers spend more money than others, while others are customers for long periods. As marketers, we want to know how much value to expect from customer groups to determine their value to the organization and how much we should be spending to attract and retain customers. Customer lifetime value (CLV) estimates how much a single customer is worth to a company over their customer life span. Unlike other marketing metrics, customer lifetime value is a forward-looking metric. Therefore, it is an estimate, not a guarantee.

Customer lifetime value is closely related to customer acquisition cost, the amount an organization invests in attracting a new customer. We want our customer lifetime value to exceed the customer acquisition cost to ensure we are not spending more money to attract customers than they are worth. However, we also know that customers have additional costs, such as our cost of goods sold or the cost to serve. These costs must be calculated along with customer lifetime value to determine whether our customers are profitable. We also know that retaining current customers is important so we are not continually investing in customer acquisition. To invest in existing customers, companies may introduce loyalty programs, increase customer experience, design positive user experiences, and/or connect with customers on social media.

A simple formula for customer lifetime value is

$$\begin{aligned}\text{Customer Lifetime Value} &= (\text{Annual Profit per Customer} \\ &\times \text{Average Number of Years Retained}) \\ &- \text{Customer Acquisition Cost}\end{aligned}$$

The annual profit per customer considers the cost of goods sold and customer acquisition cost.

Give the customer lifetime value calculation a try for yourself. What is the customer lifetime value for each of the four segments in the example shown in Table 2.1?

Table of different generations and their profit as a customer

Person	Annual Profit Per Customer	Average Number of Years Retained	Customer Acquisition Cost
Millennial parents	$10,000	12	$750
Millennial singles	$18,000	12	$750
Working moms	$22,000	8	$1,200
Gen Z emerging professionals	$34,000	2	$1,600

Table 2.1

Answer

Solution

Millennial parents: $119,250

Millennial singles: $215,250

Working moms: $174,800

Gen Z emerging professionals: $66,400

Which segment would you choose if you were tasked with starting a new campaign that maximized CLV?

Answer

Millennial singles have the highest CLV.

Let's suppose the customer experience team could increase the average number of years that the Gen Z segment retains from two to eight. Which segment would then have the highest CLV?

Answer

Gen Z would have the highest CLV at $270,400.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

What are key performance indicators (KPIs)?

a. Industry economic forecasts gathered during external analysis
b. A collection of all the detailed statistics we can find regarding firm performance
c. A competitive analysis that allows a company to understand the strategic direction of competitors
d. Specific variables that allow us to monitor the health/performance of the organization

2.

How frequently should we monitor KPIs?

a. Continuously
b. Monthly when the financial statements are produced
c. Annually when the yearly financial statements are produced
d. When things just don't "feel" quite right

3.

You've emailed a customer satisfaction survey to 20,000 customers and received 1,825 responses. Of those 1,825 responses, the ratings came back as follows:

- 500 very satisfied
- 300 satisfied
- 1,025 neutral or dissatisfied or very dissatisfied

What is the customer satisfaction score?

a. 44%
b. 27%
c. 9%
d. 11%

4.

The observation is made that a single data point in isolation is not very useful. What can we do with a KPI data point to make it useful?

a. Compare the KPI data point with a related goal/objective (forecast).
b. Compare the KPI data point with our historical performance.
c. Compare the KPI data point with industry averages.
d. These are all useful things to do with a KPI data point.

5.

Why is it important to track customer satisfaction?

a. We don’t need to; we already have their money.
b. Customer referrals can be a powerful promotional tool.
c. Customer acquisition can be expensive; repeat purchases can be much more profitable.
d. Statements b and c are both correct.

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2.6: Ethical Issues in Developing a Marketing Strategy

Learning Objectives

By the end of this section, you will be able to:

- Explain the importance of ethical marketing.
- Describe key ethical considerations in strategic planning.
- Discuss examples of ethical companies.

The Importance of Ethical Marketing

Marketing ethics are the moral guidelines that allow companies to scrutinize their marketing strategies and actions. This means that a marketer has an obligation to ensure that all marketing activities adhere to core ethical principles, such as integrity and honesty—both internally and externally (Shivani, 2021).

As we'll see below, ethical marketing is a crucial factor in an organization's overall growth over time, and it produces many benefits:

- **Customer Loyalty.** Every company wants customers who keep returning to buy their products and services. Companies have learned over time that, with the adoption of common-sense ethics in marketing, they can more easily earn the trust of consumers (Shivani, 2021).
- **Improved Credibility.** Look beyond customers when considering this factor and think in terms of the respect and credibility an ethical company earns with its investors, competitors, and other parties.
- **Brand Enhancement.** Consumers, competitors, investors, and others have begun to look beyond product features and pursue brands that consider the three Ps of sustainability—people, planet, and profits.

Millennials and Generation Z: Purchases Follow Beliefs

During the American Industrial Revolution in the early 1900s, the United States saw the rise of iconic business enterprises like Ford, U.S. Steel, J.P. Morgan, Union Pacific Railroad, and many others. Some (a few) gave generously to charitable causes. Others made their wealth unscrupulously, exploiting labor and using questionable business practices.

Corporate social responsibility (CSR) is the concept that a company should integrate social and environmental concerns into its business operations and practices. It didn't begin to take hold in the United States until the 1970s. In 1971, the Committee for Economic Development released a policy statement declaring the concept of a "social contract" between business and society, wherein the business has an obligation to serve the needs of society constructively (Association of Corporate Citizenship Professionals, 2022). This concept was further fueled by President George H. W. Bush's call for a "thousand points of light" (Edelman, 2018). The bottom line is that CSR changed business as usual. Today, Fortune Global 500 firms spend approximately $20 billion on CSR initiatives yearly, and companies take public positions on diversity, inclusion, education, and the environment (Ledecky, 2022).

We are witnessing an evolution in consumer expectations as consumers begin to vote with their wallets. Millennials (those born between 1981 and 1996) and Generation Z (those born between 1997 and 2012) are now the biggest global generation, making up 65% of the world's population, so it stands to reason that, as these generational cohorts enter their prime spending years, many companies have begun to focus their marketing efforts on this segment of the population (Submittable, 2020). What marketers have discovered is that millennials and Zoomers (aka Gen Z) engage with brands differently than older generations like Generation X (born between 1965 and 1980) and the baby boomers (born between 1946 and 1964). They're more likely to steer clear of mass-market branded products in favor of smaller, eco-friendly brands. They are the most likely to make buying decisions based on values and principles. For example, consider some statistics from a First Insight report that shows that 62% of both millennials and Zoomers are willing to spend more for sustainable products, compared with only 54% of Gen X and 39% of Baby Boomers (Submittable, 2020).

Nielsen, the information, data, and marketing firm, surveyed over 30,000 consumers in 60 countries to determine what influences and affects their buying habits. The results were somewhat amazing:

- 66% of global consumers are willing to pay more for sustainable products (Submittable, 2020)

- 66% of global consumers are willing to pay more for sustainable products (Submittable, 2020).
- 73% (nearly three out of four) of millennials indicated they would be willing to pay extra for sustainable goods (Submittable, 2020).

What implications does this have for marketing to these generations? The bottom line is that CSR is more than just a buzzword for these generational cohorts. To make an impact, companies need to use their resources to show—not just tell—these younger generations how business enterprises are making an impact through authenticity and transparency.

Key Ethical Considerations in Strategic Planning

It's no secret that the primary goal of marketers is to increase growth by creating and maintaining customers. However, sometimes pursuing that growth to satisfy shareholder goals to the exclusion of other groups (like customers) has led to high-profile ethical dilemmas. Let's consider a few:

According to a Gallup poll in 2021, approximately 6% of U.S. adults report that they have used e-cigarettes within the past week despite health warnings about vaping (Hrynowski, & Brenan, 2021). The sale and distribution of e-cigarettes are banned or regulated in a growing number of countries, much to the dismay of vaping aficionados. Where do you draw the line? Is vaping a matter of personal choice, or are people influenced by the marketing efforts of e-cigarette producers such as Juul?

Consider the ethical implications behind this. Should e-cigarette manufacturers sell customers what they crave, or should they tailor their offerings based on what health experts say? Who gets to make that choice? Does the decision fall to the consumer, the producer, a public watchdog group, or the federal government?

Consider another ethical issue. During the first decade of the new millennium, Toyota vehicles experienced problems with unintended, uncontrolled acceleration that prompted over 6,200 complaints to the National Highway Traffic Safety Administration and were linked to more than 89 deaths over the next five years (Parish, 2016). Early on, Toyota blamed driver error. Later, it issued recalls to address floor mats that pinned down accelerators in some cases. But the company hid a flawed gas pedal design and lied to regulators, Congress, and the public for years about the sudden acceleration problem, ultimately leading to a fine of $1.2 billion by the Justice Department, which contended that Toyota's efforts to conceal the problem and protect its "corporate image" led to a series of preventable fatalities. The settlement has been called the largest criminal penalty imposed on a car company in U.S. history (Douglas & Fletcher, 2014).

Could these situations have been avoided with a stronger ethical focus and an eye toward the greater good? It all starts with the strategic planning process, which can be used to build "good" into the core of the organization.

Broader Participation

As pointed out in Marketing and Customer Value, an organization must consider all parties that it might impact, including investors, communities, governments, customers, employees, and suppliers. In the context of corporate social responsibility, this means that leaders of companies must create value for all of these groups while simultaneously producing a fair return for shareholders or owners.

Organizational and Individual Values

When considering organizational and individual values, the marketer needs to ask (and answer candidly) the following questions:

- Does the organization's mission reflect current activities focused on the triple bottom line?
- Does the organization's vision statement lead to outcomes that contain elements of social good?
- Do the organization's values reflect respect for one another, the community, and the environment?
- Are those values authentic, and do members of the organization live by them daily?
- Has the organization included goals and objectives that refer specifically to elements of social good?

These questions can help inform the organization's activities as it works through the strategic planning process. Thoughtful analysis and design at this stage can build strong organizations that not only deliver profits but also produce positive social outcomes for **all** parties.

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2.7: Chapter Summary

This chapter explores the topic of marketing strategy in more detail. Strategy starts with understanding where a company is, where it wants to go, what the operating environment looks like, and what tools it has to work with or could acquire. The foundation of a company's identity is established based on the vision, mission, values, and goals and objectives of the organization.

The vast majority of organizations have a single product line or market focus. However, there are circumstances where a company may view its enterprise as consisting of a portfolio of products or operating units. In this chapter, we explore tools such as SWOT analysis and the BCG matrix that can help a company organize and analyze its portfolio.

We need to define a strategy for our organization, whether we have one product or dozens. The strategy selected for each product line or business unit does not have to be the same. We explored strategies associated with market penetration, market development, product development, and diversification.

A well-known saying asserts, “If you fail to plan, you are planning to fail.” This chapter explores the motivation for creating a formal marketing plan and the elements that should be included. The chapter also explores KPIs and the metrics required to organize, monitor, and manage an organization. The chapter finishes with a discussion of ethics, specificaly how authenticity, social justice, and doing business for good resonate with millennials and Generation Z.

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2.8: Key Terms

BCG matrix | Boston Consulting Group's framework for analyzing an organization's strategic business units

business portfolio | the group of products, services, and business units that a company possesses

business-level strategy | outline of the actions and decisions a company plans to take to reach its goals and objectives

buyer persona | a semi-fictional representation of your ideal customers based on data and research

concentric diversification | the addition of similar products or services to an existing business

conglomerate diversification | the development and addition of new products or services that are significantly unrelated to a company's current offerings

corporate social responsibility (CSR) | the concept that a company should integrate social and environmental concerns into its business operations and practices

corporate-level strategy | strategy that establishes the overall value of a business through setting strategic goals and motivating employees to achieve them

customer acquisition cost | the amount an organization invests in attracting a new customer

customer lifetime value (CLV) | an estimate of how much a single customer is worth to a company over their customer life span

executive summary | a brief overview of a marketing plan

functional strategy | actions and goals assigned to business units that support the overall business strategy

gap analysis | an internal analysis of a company or organization to identify and review its inherent deficiencies that may hinder its ability to meet its goals

goals | the outcomes one intends to achieve

horizontal diversification | the development of new and perhaps even unrelated products or services to market to existing customers so that a company can garner a larger customer base

key performance indicators (KPIs) | quantifiable measure gauging a company's performance against a set of targets, objectives, or competitors

market development strategy | a growth strategy that identifies and develops new market segments for current products

market penetration strategy | a strategy used when a company focuses on growing its market share in its existing markets

marketing dashboard | summarizes important marketing metrics and key performance indicators into easy-to-understand measurements

marketing ethics | area of applied ethics dealing with the moral principles behind the operation and regulation of marketing

marketing metrics | what marketers use to monitor, record, and measure progress over time; are varied and can change from platform to platform

mission statement | action-based statement declaring the purpose of an organization

objectives | specific targets to be achieved within a specified period of time

product development strategy | complete process of delivering a new product or improving an existing one for customers

product diversification strategy | strategy to increase profitability and achieve higher sales volume through new products

product positioning | strategic exercise that defines where a product or service fits in the marketplace

strategic business unit | a relatively autonomous division of a large company that operates as an independent enterprise with responsibility for a particular range of products or activities

strategy | set of plans, actions, and goals that outlines how a business will compete

SWOT analysis | identification of internal strengths and weaknesses and external opportunities and threats impacting a business

vision statement | aspirational statement that articulates what an organization aims to achieve

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2.9: Applied Marketing Knowledge- Discussion Questions

1. Your university annually evaluates the current and possible value of its strategic business units (SBUs). The university may examine its majors as SBUs or may examine each college, school, or division's performance while recruiting students. Use a Boston Consulting Group (BCG) matrix to examine the university's business portfolio—majors may be stars, cash cows, question marks, or dogs based on past and current enrollment in those majors. (Chances are good that underperforming "dog" majors will be phased out and financial support shifted from majors that serve as cash cows to fund the growth of stars or question marks.) List two majors that fit into each of the growth-share matrix quadrants.
2. Why is perceived value important in price setting?
3. Personas are especially helpful as marketers consider the _____ for their products and are most commonly used when developing promotional materials.
4. What are SMART goals, and why are they important in strategic planning?

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2.10: Critical Thinking Exercises

1. Like Clorox and Zoom, Peloton was poised to seize the market opportunities created by the COVID-19 pandemic and stay-at-home mandates ordered by cities and states. Research Peloton and construct a timeline of key Peloton events from 2020 through 2022. What key strategic decisions did Peloton make in the exercise-at-home market? (Be sure to include Peloton's summer 2021 decision to lower the price of its original bike by 20%.) What opportunities and challenges did Peloton face during the pandemic? How did consumer behavior change during the first year of COVID-19? How well did Peloton predict consumer demand for its exercise products? Now that you've seen the challenges a growth strategy presents, what do you see as the long-term business growth potential for Peloton?
2. Go to Clorox's website and review the company's primary products (opens in new window). Complete a SWOT matrix for Clorox that lists at least three strengths, weaknesses, opportunities, and threats. The first level in the SWOT has been provided for you below.
3. Disney is an example of a diversified company. Its success is based upon founder Walt Disney's artistic abilities and years of successful strategic planning. Answer the following questions:

    A. Why has it been important for Disney to identify new products and markets?

    B. How has Disney leveraged its strengths to pursue new opportunities?

    C. In addition to parks and resorts, list three products/services Disney has expanded into.

    D. In your opinion, is Disney an example of an ethical company that practices a double bottom line?

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2.11: Building Your Personal Brand

Many brands recognize the benefits of hiring brand ambassadors. Red Bull is one of these brands. Because college students constitute a major portion of its target market, Red Bull relies on student ambassadors (Marketeers) to interact with customers. According to Red Bull's Student Marketeer website, "student Marketeers are in direct contact with various consumers and customers, inviting product trial, helping establish Red Bull consumption in diverse occasions, supporting our sales teams, working with renowned athletes, and of course, ensuring an unforgettable brand experience for consumers at Red Bull events. Based on your skills, knowledge, experience and availability, your focus will be either on your campus or you'll cover the entire region on board the iconic Mini" (Red Bull, 2024).

Identify another brand that follows the strategy of welcoming brand ambassadors and describe how finding this sort of part-time job might enhance your own brand.

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2.12: What Do Marketers Do?

Consider the city where you live. Why do you live there? Why have businesses chosen to locate there? Call your Chamber of Commerce and ask to speak to the chamber director or marketing director. Ask the following questions:

- Have you used strategic planning to explore growth opportunities?
- What are the strengths of our city that you express to Chamber members or businesses considering relocating here?
- Have there been any changes in politics, culture, ecology, or technology that offer opportunities to attract businesses to this community?
- Are there weaknesses or threats that our city must overcome to improve its growth and viability?
- How do college students contribute to the strengths of our city or overcome workforce threats?

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2.13: Closing Company Case

Blue Zones

When adventurer Dan Buettner set off around the world, riding his bike and visiting far-off destinations, he put a way of living into motion. By studying various communities around the world, Dan discovered pockets where populations of older people seemed to be living longer than anywhere else on earth. There were five such places where people lived a very long time and were healthier than many of the world's people. Dan called these places "Blue Zones." The Blue Zones included Okinawa, Japan; Sardinia, Italy; Nicoya, Costa Rica; Ikaria, Greece; and Loma Linda, California.

The Blue Zone concept grew and developed through the work of Gianni Pes and Michel Poulain. They originally identified Sardinia as a part of the world where there was a high concentration of older men. As the two began mapping the regions of longevity, they highlighted the villages and termed the inner circle of the "Blue Zones."

"Dan and the team of demographers and researchers found that all blue zone areas share nine specific lifestyle habits that they call the Power 9" (Blue Zones, 2024).

The Blue Zones became a New York Times bestseller. Media attention followed, and soon interest increased in the lifestyles within the Blue Zones. People began to recognize the Blue Zones as the happiest places to live. Communities were looking for ways to emulate the lifestyles and successes of these regions and, in turn, boost their own longevity.

Dan realized he had not only a business but a mission. What would happen if Blue Zones were created around the world? What if every community became a Blue Zone and a happy and healthy place where people lived longer? Could chronic disease be eradicated? Would health care costs drop?

In 2009, Albert Lea, Minnesota, teamed up with Blue Zones by applying the same concepts seen in the other Blue Zone locations. The location was suffering a severe economic crisis and needed a strategy to get out of it (Blue Zones, 2019).

What do these communities get for signing on to be a structured Blue Zone? Lower obesity rates, smoking cessation, increased exercise among their populations, reduced health care expenses, and a happier and more productive community. The initiatives are incredibly effective at changing how people live, work, and play. The Blue Zones project is population health at work. Adopting Blue Zones creates a culture and community of complete well-being—one in which people's productivity increases because of less illness.

Creating these communities includes a phased approach. Blue Zones starts with Phases I and II, which build the foundation. Assessment and an understanding of the current and desired future states enable identification of gaps and issues. After the plan is drawn, in Phase III a full transformation takes place that encompasses the people, the places, and the policy. When the plan is fully accepted and implemented, people will enjoy longevity, lower healthcare costs, and the recognition that the community is a great place to live and work.

How does the Blue Zones process work for the communities that participate? The effort is a collaboration between the community and the Blue Zones team. Starting with a complete evaluation of the community, Blue Zones experts work with community leaders and residents to assess the current state of well-being. Understanding the challenges currently facing the community provides the team with the greatest opportunity to develop the opportunities that will transform the community.

The statistics speak for themselves. Now, communities across the United States are working to find ways to combat the crippling effects of the nation's healthcare crisis. Blue Zones could be the answer. "The Blue Zones Project helped our community set amazing, aggressive, and achievable strategies that moved the Public Health agenda further in 10 months than what I could have expected in 10 years," said Lois Ahern, director of Freeborn County Health (retired), in Albert Lea (Blue Zones, 2024).

Case Questions

1. What are the mission and purpose of Blue Zones?
2. Marketers use strategies such as market penetration, market development, product development, and diversification. What is the optimal strategy for Blue Zones to pursue to gain a foothold in the United States?
3. What are the market segmentation and target market for Blue Zones?

4. Blue Zones works to create healthier communities. With this goal in mind, what are some of the KPIs Blue Zones might work to implement?

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CHAPTER OVERVIEW

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3.1: In the Spotlight

There is no denying that COVID-19 affected the entire economy, but fast-food restaurants were particularly hard hit when indoor dining was restricted. McDonald's quickly adapted during the pandemic by focusing on what it calls the 3 Ds: digital, delivery, and drive-through.

McDonald's had a strong position in terms of digital innovation even before the pandemic. Beginning in 2015, it installed self-order kiosks in its restaurants, and it launched its mobile app (Mobile Order & Pay) in 2017, allowing customers to browse the menu, find nearby restaurants, place their orders, and pay in the app. Digital sales exceeded $10 billion in 2020, nearly 20% of system-wide sales.

The company also tackled the efficiency of its drive-through lanes by investing in dynamic menu boards and cutting its menu items to its "core menu." As a result, McDonald's was able to shave 30 seconds from its drive-through time. That time savings enabled the company to serve 300 million additional drive-through customers.



Figure 3.1 Understanding consumer purchasing decisions is important because it allows companies to better influence those behaviors. (credit: modification of work "Hong Kong Street Market" by Bernard Spragg. NZ/flickr, Public Domain)

The pandemic and the subsequent restrictions on indoor dining also led McDonald's to scale up its delivery platform and the number of restaurants that offer delivery. By ramping up the number of restaurants offering delivery from 28,000 to 41,000, it more than tripled delivery sales.

Focusing on the 3 Ds enabled McDonald's to weather the pandemic and create a faster, easier, and improved customer experience (Campos, 2021).

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3.2: Understanding Consumer Markets and Buying Behavior

Learning Objectives

By the end of this section, you will be able to

- Define consumer buying behavior.
- Explain the nature of the buyer's black box.
- Describe how consumer behavior is characterized into types.

Consumer Markets and Consumer Buying Behavior Defined

How many buying decisions did you make today? Perhaps you stopped on the way to work or class to buy a soft drink or coffee, went to the grocery store on the way home to get bread or milk, or ordered something online. You likely make buying decisions nearly every day and probably don't give most of those decisions much thought. However, how you make those decisions is significant for marketers because if they can understand *why* you buy what you buy and *when* you buy it, they can use that information to boost revenue.

Consumer buying behavior refers to the decisions and actions people undertake to buy products or services for personal use. In other words, it's the actions you take before buying a product or service; as you will see, many factors influence that behavior. You and all other consumers combine to make up the consumer market.

The Buyer's Black Box

It stands to reason that the hundreds of millions of people who make up the global consumer market don't all buy the same products and services. Why do certain people prefer different items than others? The answer lies in the factors that influence consumer buying behavior. One model of consumer buying behavior is what's known as the buyer's black box, called such because little is known about what goes on in the human mind. It's also known as the stimulus–response model.

As the model shown in Figure 3.2 illustrates, consumer buying behavior is based on stimuli from a variety of sources—marketers in terms of the 4Ps (product, price, promotion, and place) and environmental stimuli, such as economic factors, legal/political factors, and technological and cultural factors.

These stimuli go into your "black box," which consists of two parts: buyer characteristics such as beliefs and attitudes, motives, perceptions, and values, and the buyer decision-making process, later covered in this chapter. Your response is the outcome of the thinking that takes place in that black box. What will you buy, where, when, how often, and how much?

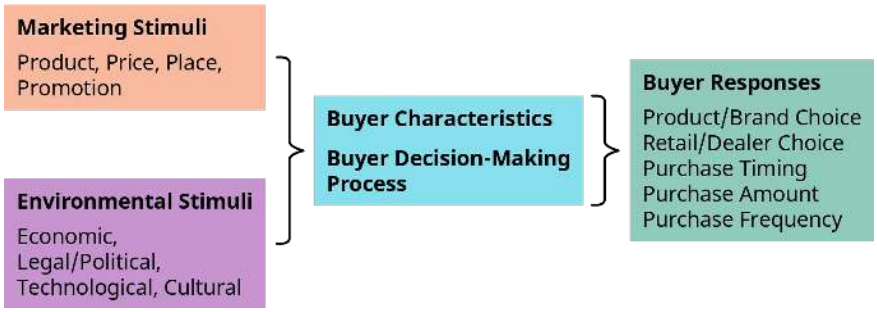


Figure 3.2 Stimulus-Response Model/Buyer's Black Box (CC BY 4.0; Rice University & OpenStax)

Types of Consumer Buying Behavior

Buying behavior is not influenced solely by the external environment but is also determined by your level of involvement in a purchase and the amount of risk involved. There are four types of consumer buying behavior, as shown in Figure 3.3.

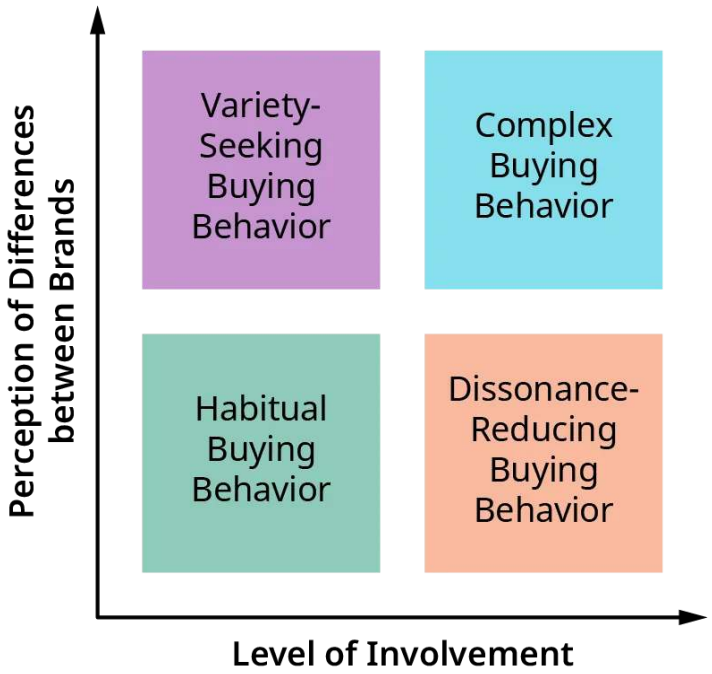


Figure 3.3 Types of Consumer Buying Behavior (CC BY 4.0; Rice University & OpenStax)

Complex buying behavior occurs when you make a significant or expensive purchase, such as buying a new car. Because you likely don't buy a new car frequently, you're highly involved in the buying decision, and you probably research different vehicles or talk with friends or family before reaching your decision. By then, you're likely convinced that there's a significant difference among cars, and you've developed your own unique set of criteria that helps you decide on your purchase.

Dissonance-reducing buying behavior occurs when you're highly involved in a purchase but see little difference among brands. Let's say you're replacing the flooring in your kitchen with ceramic tile—another expensive, infrequent purchase. You might think that all ceramic tile brands in a certain price range are "about the same," so you might shop around to see what's available, but you'll probably buy rather quickly, perhaps because of a good price or availability. However, after your purchase, you may experience post-purchase dissonance (also known as buyer's remorse) when you notice some disadvantages of the tile you purchased or hear good things about a brand you didn't purchase.

Habitual buying behavior is low in the purchase decision because it's often a repeat buy, and you don't perceive much brand differentiation. Perhaps you usually buy a certain brand of organic milk, but you don't have strong brand loyalty. If your regular brand isn't available at the store or another brand is on sale, you'll probably buy a different brand.

Variety-seeking buying behavior has the lowest customer involvement because brand switching is your norm. You may not be unhappy with your last purchase of tortilla chips, but you simply want to try something new. It's a matter of brand switching for the sake of variety rather than because of dissatisfaction with your previous purchase.

Link to Learning: The 4Ps and Consumer Behavior

Watch this short, humorous 4Ps video to help you remember the concept. This video also includes several examples of target markets and how a marketer might respond.



Consumer behavior is an important marketing topic, and depending on the marketing program at your institution, you may have the opportunity to take a consumer behavior course and learn more about the topics covered above. Studying consumer behavior is important in marketing because it will teach you how to best know your customer, an integral aspect to marketing a product or service.



As mentioned, environmental factors have an impact on consumer behavior. Can you think of a recent environmental influence that has had a significant impact? The coronavirus pandemic has probably been the most influential in recent years and for many reasons! We still have a lot to learn about the impacts of the pandemic, and new information is being released daily about changing human behavior and the impact on marketing. For example, in this Google article, the author shares a cultural anthropologist's insights for understanding consumer behavior and how it relates to three core needs all people experience—self-care, social connection, and identity—and how these needs correlate to recent YouTube video trends. Learn about how marketers can respond to this trend.

Continually trying to understand environmental influences will keep you on the cutting edge and ahead of the competition. It's a great practice to always be looking for the latest information so that you can shift your strategies as needed. Bain & Company is an

example of one company that wanted to understand how the pandemic changed consumer behavior. The company ran a survey in 2021 to better understand the impact of the pandemic, and it found five trends from the data.



A survey from Accenture, one of the top-ranked consulting firms in the world, found that the pandemic caused 50 percent of consumers to evaluate their purpose and what's important to them. Read more about the findings in this article.

Always be looking for information to be the best marketer you can be!

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

You're considering buying a widescreen TV. You've researched different features, looked up and reviewed models on the Internet, and even asked a few friends for their recommendations. What type of buying behavior are you exhibiting?

a. Dissonance-reducing buying behavior
b. Variety-seeking buying behavior
c. Complex buying behavior
d. Habitual buying behavior

2.

In the buyer's black box, external stimuli that are planned and created by the producer and/or seller are known as _____ stimuli.

a. economic
b. marketing
c. technological
d. social

3.

Samantha sees a TV commercial announcing that a mattress she's been considering is on sale through the holiday weekend and makes plans to visit the store the next day to take advantage of the sale. In terms of the buyer's black box, how would this TV commercial be characterized?

a. Product choice
b. Brand choice

c. Social stimuli
d. Purchase timing

4.

You're at the grocery store buying potato chips for a barbeque you're having this weekend. You normally buy Lay's potato chips, but you notice that Ruffles are on sale, so you pick up a few bags of Ruffles. What buying behavior have you displayed?

a. Dissonance-reducing buying behavior
b. Habitual buying behavior
c. Variety-seeking buying behavior
d. Complex buying behavior

5.

The decisions and actions people undertake to buy products or services for personal use are known as _____.

a. the consumer market
b. the buyer's black box
c. consumer buying behavior
d. complex buying behavior

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3.3: Factors That Influence Consumer Buying Behavior

Learning Objectives

By the end of this section, you will be able to

- List and describe the cultural factors that influence consumer buying behavior.
- Explain the social factors that impact consumer buying behavior.
- Discuss the personal factors that influence consumer buying behavior.
- Describe the psychological factors that influence consumer buying behavior.
- Explain situational factors that impact consumer buying behavior.

Cultural Factors That Influence Consumer Buying Behavior

Why people buy isn't always a straightforward question. Think about the last time you bought a car, a bike, or other item. Why did you buy that specific make and model? Was it because its sleek style made you feel good about yourself? Perhaps you bought a particular brand because someone in your family bought the same brand. These are just a couple of examples of some of the factors that influence consumer buying behavior. Let's examine some others.

Cultural factors comprise a set of values or ideologies of a particular community or group of individuals. These can include culture, subcultures, social class, and gender as outlined in Figure 3.4.

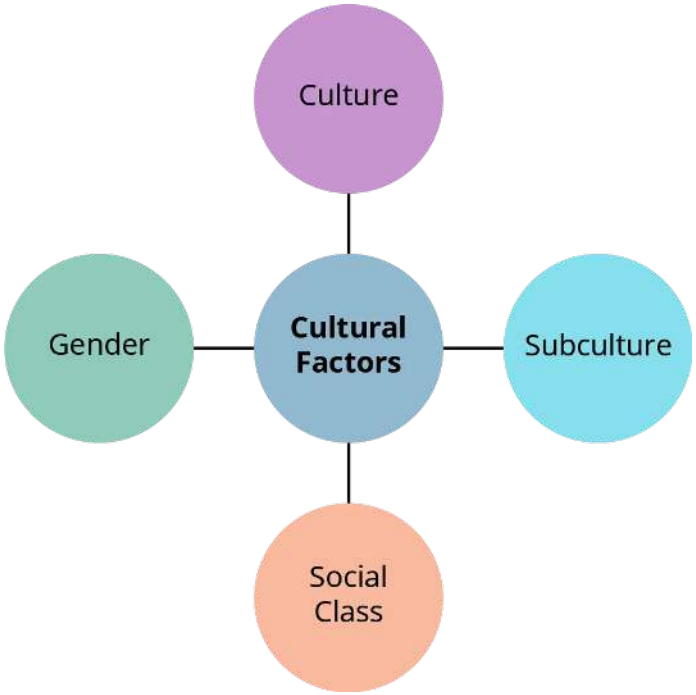


Figure 3.4 Cultural Factors Influencing Consumer Purchasing Behavior (CC BY 4.0; Rice University & OpenStax)

Culture refers to the values, ideas, and attitudes that are learned and shared among members of a group. Human behavior is largely learned. When you were a child, you learned basic values, perceptions, wants, and behaviors from your family and other external influences like the schools and churches you attended. Consider how these values and attitudes have shaped your buying behavior. For example, in a traditional Hindu wedding in India, a bride may wear red lehenga to the wedding, whereas Christian brides typically wear white. In India, widows are expected to wear white, whereas widows in the United States and other parts of the world generally wear more somber colors to a funeral (Management Study Guide, 2024).

A subculture is a group of people, such as environmentalists or bodybuilders, who share a set of values. Ethnic and racial groups share the language, food, and culture of their heritage. Other subcultures, like the biker culture, which revolves around a dedication to motorcycles, are united by shared experiences. The Amish subculture is known for its conservative beliefs and reluctance to

adapt to modern technology. Think about what subculture(s) you may belong to and how they influence your buying behavior. For example, hip-hop music has long been associated with fashion, particularly sneakers. Run DMC's 1986 hit "My Adidas" led to the first endorsement deal between a fashion brand and a musical act, setting the stage for lucrative partnerships spanning the decades since—Master P with Converse, Jay-Z and 50 Cent with Reebok, Missy Elliott and Big Sean with Adidas, and Drake with Nike.

Link to Learning: Failures and Inspirations

Cultural factors play a major role in determining how best to market to consumers. There are numerous examples of company efforts that failed because they did not reflect an understanding of the culture in a particular market. Watch this CNBC video on why Starbucks failed in Australia and read this article about how Coca-Cola and PepsiCo failed when they first moved into the Chinese market.



Also check out this CNBC video about why 7-Eleven failed in Indonesia.



Failures are always important because they come with learned knowledge, and if you understand the WHY behind the failure, the learning can lead to shifts in strategy and possible success. Read the inspiring story behind Run DMC's revolutionary market deal

with Adidas and how it opened the door for current artists like 50 Cent, Jay-Z, and Puffy.

For more success stories, check out these videos about numerous companies that got it right. Examples include stories from Rihanna's Fenty beauty line, Adobe's "When I See Black" ad, Bumble's "Find Me on Bumble" campaign, and many more!

Your social class is also an important influence on your buying behavior. Sociologists base definitions of social class on several different factors, including income, occupation, and education. While there is disagreement on the number of social classes defined by income in the United States, many sociologists suggest five social classes: upper class, upper-middle class, lower-middle class, working class, and the economically disadvantaged (Anyon, 2005). Income is largely defined by disposable income (the money you have left to spend or save after taxes are deducted), but its influence goes beyond just dollars, euros, yen, etc. For example, a lower-middle-class individual might focus primarily on price when considering a product, whereas an upper-middle-class person might consider product quality and features before price. However, you also can be influenced by a social class to which you don't belong but by which you want to be accepted. Have you ever spent money you really didn't have on brand name running shoes or a designer purse because that's what your friends have?

Finally, your gender plays an important role in your buying behavior. People of different genders not only want different products as a result of their upbringing and socialization, but they approach shopping itself with different motives, perspectives, and considerations. While it's always dangerous to stereotype, those who identify as male typically follow a utilitarian, more logic-based approach when shopping. They want a quick, effortless shopping experience. Those who identify as female, on the other hand, make decisions on a more emotional level. Zappos considers these different motives and provides different layouts on their landing pages for different genders. While the "male" version focuses on providing clear navigation by product categories, the "female" version aims to sell on emotion (Zoovu, 2019).

Link to Learning: Behind the Gender Differences

Gender differences lead to different buying behaviors. Read this article about one such example, Birchbox, a hair care and skin care subscription service. For even more information, check out this article about the reasons for the differences, which include purpose, experience, brain make-up, and more. Interesting reads!

You can also watch this Gaby Barrios TED Talk. Barrios is a marketing expert who speaks about how targeting consumers based on gender is bad for business.



This humorous video from The Checkout, a TV show about consumer affairs, discusses gender marketing packaging decisions and their impact on your wallet.



Another video about fashion brands focuses on how their parent companies leverage gender strategies.



Careers In Marketing: Women in Marketing

Let's look at gender from another angle—women advancing in marketing. Part of a series about jobs in marketing, this article examines equity in the world of marketing. Findings include data on gender balance and inequality, and guidance on ways to improve.

For an inspirational moment, be sure to read these heartwarming stories about six mothers of great marketers.

Social Factors That Influence Consumer Buying Behavior

Social factors are those factors that are prevalent in the society where the consumer lives. Every society is composed of individuals who have different preferences and behaviors, and these individuals influence the personal preferences of others in the society. Humans are social individuals, and the influences of people's family, reference groups, and roles and status (refer to Figure 3.5) have a huge impact on their buying behavior.

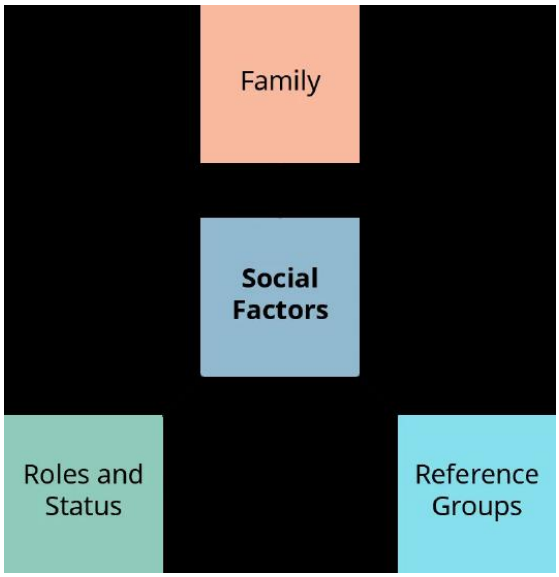


Figure 3.5 Social Factors Influencing Consumer Purchasing Behavior (CC BY 4.0; Rice University & OpenStax)

Let's first consider the influence of family. It is generally believed that most people pass through two families: a family of orientation (i.e., the family to which you were born or with whom you grew up) and a family of procreation (the family formed through marriage or cohabitation, including your spouse, partner, and/or children). Consider first the family of orientation. When you were growing up, whether or not you recognized it, you likely developed some degree of buying behavior through watching adult members of your household and probably tend to buy the same products or services as you grow older. Was your father a die-hard Chevy driver? If so, the chances are good that you'll probably at least consider buying a Chevy, too. Now consider the influence that your spouse, partner, and/or children have on your buying behavior. You may want that Chevy pickup because that's what your father drove, but your spouse or partner may subtly (or perhaps not so subtly) sway you toward a Chevy crossover SUV because it's more practical with kids to transport to school, sports, and other activities.

Reference groups are those groups with which you like to be associated. These can be formal groups, such as members of a country club, church, or professional group, or informal groups of friends or acquaintances. These groups serve as role models and inspirations, and they influence what types of products you buy and which brands you choose. Reference groups are characterized by having opinion leaders—people who influence others. These opinion leaders aren't necessarily higher-income or better educated, but others view them as having more expertise in a particular area. For example, a teenage girl may look to the opinion leader in her reference group of friends for fashion guidance, or a college student might aspire to getting an advanced degree from the same university as an admired professor. Social media influencers also play a role here. Consider the influence that celebrities like Kendall Jenner (with more than 217 million Instagram followers)[5] or Leo Messi (with over 310 million Instagram followers) have on individuals (Jenner, 2022; Messi, 2022).

All people assume different roles and status depending upon the groups, clubs, family, or organizations to which they belong. For example, a working mother who is taking classes at the local community college assumes three roles at varying times—that of an employee, a mother, and a student. Her buying decisions will be influenced by each of these roles at different times. When she is shopping for clothing, her purchases may be influenced by any or all of these roles—professional attire for the office, casual clothes for classes, or yoga pants for home.

Personal Factors That Impact Consumer Buying Behavior

Personal factors, such as your occupation, age and life cycle stage, economic situation, lifestyle, and personality and self-concept also play a major role in your buying behavior (refer to Figure 3.6). Let's examine each of these in more detail.

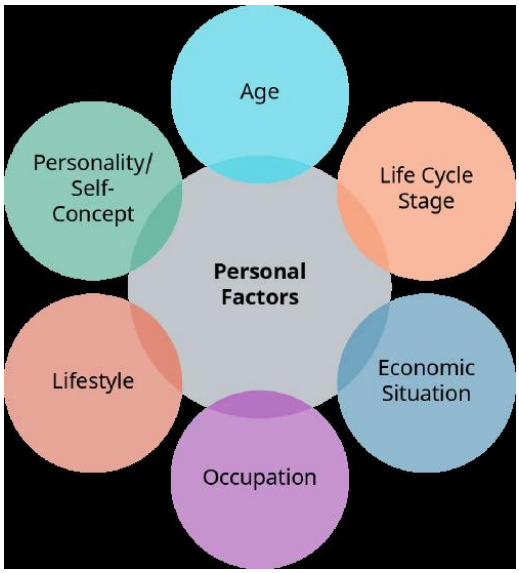


Figure 3.6 Personal Factors Influencing Consumer Purchasing Behavior (CC BY 4.0; Rice University & OpenStax)

Age is a major factor that influences buying behavior because consumer needs and wants change with age. Your buying habits as a teenager or twentysomething are likely to be vastly different from your buying habits in middle age and beyond. Consider the four generational cohorts currently comprising the consumer market:

- Baby boomers (born between 1946 and 1964) are currently in their 60s and 70s. This generational cohort is approximately 70 million people strong in the United States and accounts for $2.6 trillion in buying power, so you can imagine its impact on the consumer market (Statista Research Department, 2021). What types of products would you expect baby boomers to buy? Key categories for this group of buyers include pharmacy and health care products, household goods and appliances, wine, books (both digital and physical), cosmetics, and skin care products (SkuLocal, 2018).
- Generation X (born between 1965 and 1979/80) are currently in their 40s and 50s. This cohort is approximately 65 million strong and generally has more spending power than younger generational cohorts because they're at or reaching the peak of their careers, and many Gen Xers are dual-income families (Statista Research Department, 2021; McCormick FONA, 2019). This makes them an optimal target for higher-end brands and convenience-related goods, like made-to-order or prepared meals from the grocery store.
- Generation Y, also known as Millennials, (born between 1981 and 1994/96) are currently in their 20s and 30s. This cohort is the largest generation group in the United States, with an estimated population of 72 million (Statista Research Department, 2021). One interesting aspect of Millennial buying is that they shop sustainably. They shop for brands that produce items with natural ingredients and ethical production lines and sustainable goods in every sector, such as food, household cleaning products, linens, and clothes (Ciricillo, 2019).
- Generation Z, also known as Zoomers, (born between 1997 and 2012) are currently in their teens to early 20s, and they are just starting to have an economic impact on the consumer market. Although over 67 million strong, many Zoomers are still in school and living with their parents, and their discretionary spending is limited (Ciricillo, 2019).

Marketing in Practice: Marketing to the Ages

Knowing how to speak to your target market is critical. Knowing how to frame your message to a Baby Boomer versus a Gen Xer is what makes marketers successful. Want to know how to speak to each group? Check out these articles about marketing to different age demographics and generational marketing.

Learn from real-world examples of how age-agnostic marketing can work.

Have you ever seen a commercial or advertisement that pulls on your heartstrings because it gets you reminiscing? Nostalgia is an impactful tool in marketing because it gives a feeling of meaning and comfort. Check out this online blog to learn more about the impact of nostalgia in marketing.

Likewise, your life cycle stage has a major influence on your buying habits. Consider the different buying choices you would make as a single person who is renting an apartment in an urban area versus the choices you would make as a homeowner in the suburbs with children. It should be noted, though, that age and life cycle stage can often be poor predictors of buying behavior. For example, some 40-year-olds are just starting their families, while others are sending their kids off to college. Still other 40-year-olds are single (or single again). Some 70-year-olds may fit the stereotype of a retired person with a fixed income; others are still active or perhaps still working, with plenty of disposable income.

Your economic situation (income) is a huge influence on your buying behavior. Higher income typically means higher disposable income, and that disposable income gives consumers more opportunity to spend on high-end products. Conversely, lower-income and middle-income consumers spend most of their income on basic needs such as groceries and clothing.

Your occupation is also a significant factor in your buying behavior because you tend to purchase things that are appropriate to your profession. For instance, a blue-collar worker is less likely to buy professional attire like business suits, whereas attorneys, accountants, and other white-collar workers may favor suits or business casual work clothes. There are even companies that specialize in work clothes for certain types of workers, such as health care professionals who buy scrubs or construction workers who buy steel-toed boots.

Your lifestyle reflects your attitudes and values. What do you consider to be your lifestyle? Do you strive to live an active, healthy lifestyle? If so, your purchasing decisions may focus on healthier food alternatives instead of fast food. Do you consider yourself to be a soccer parent? You may (perhaps reluctantly) forgo that sports car for a minivan in order to transport your kids to youth sporting events or other activities.

Your personality and self-concept are also important factors influencing your buying behavior. Personality is the characteristic patterns of thoughts, feelings, and behaviors that make a person unique. It's believed that personality arises from within the individual and remains fairly consistent throughout life (Cherry, 2023). Some examples of the many personality traits people might have included things like self-confidence, individualism, extroversion, introversion, aggression, or competitiveness. Your personality greatly influences what you buy as well as when and how you use or consume products and services.

Perhaps even more importantly, as consumers, people tend to buy not only products they need but also those products or services that they perceive as being consistent with their "self-concept." In other words, they generally want the products they buy to match or blend in with who they think they are (Middlebrook, 2013).

Psychological Factors That Influence Consumer Buying Behavior

Your buying choices are further influenced by several major psychological factors, including motivation, perception, learning, feelings, beliefs, and attitudes (refer to Figure 3.7).

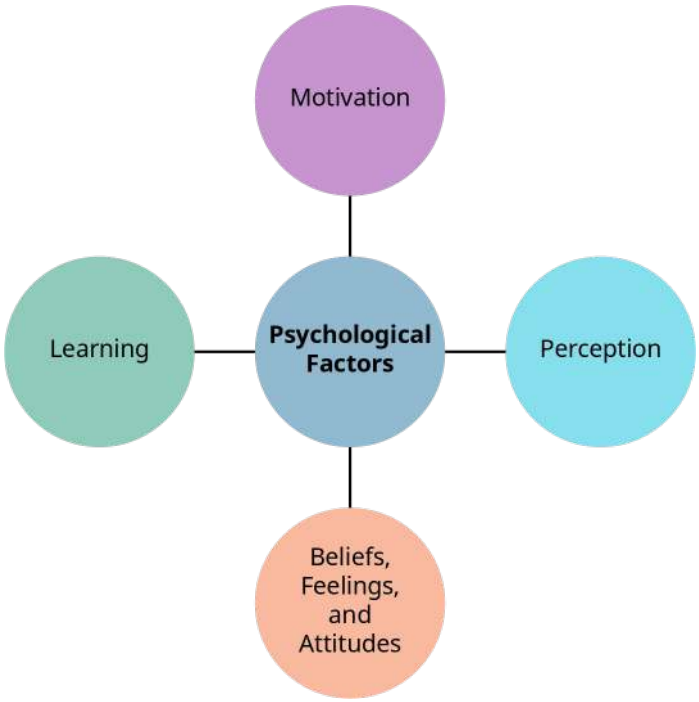


Figure 3.7 Psychological Factors Influencing Consumer Buying Behavior (CC BY 4.0; Rice University & OpenStax)

Let's first consider how motivation affects your buying behavior. Motivation is the process that initiates, guides, and maintains goal-oriented behaviors. It's the driving force behind your actions. One of the most widely known motivation theories is Maslow's hierarchy of needs (see Figure 3.8).

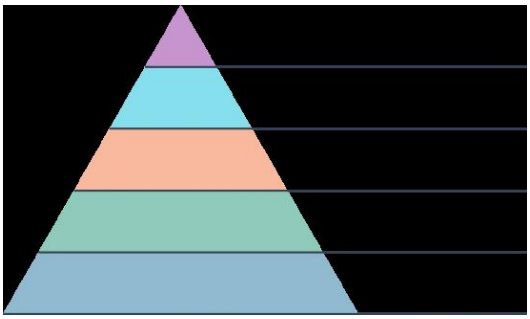


Figure 3.8 Maslow's Hierarchy of Needs (CC BY 4.0; Rice University & OpenStax)

Abraham Maslow asserted that all individuals have five needs, arranged from the most basic lower-level deficiency needs to the highest-level growth needs. As Figure 3.8 shows, physiological needs are at the most basic level and include things like adequate food, water, and shelter. Think about how marketers may try to appeal to consumers based on physiological needs. For example, Snickers ran a very successful ad campaign based on the slogan "You're not you when you're hungry."

The second level is safety and security, the need to be safe from physical and psychological harm. Once again, consider just a few successful marketing campaigns that have focused on safety—"You're in Good Hands with Allstate" and Lysol's "Practice Healthy Habits" campaign with its tagline "What It Takes to Protect."

The third level is belonging, or social needs. This level includes things like the need for emotional attachments, friendship, love, or belonging to community or church groups.

Esteem, the fourth level, includes such needs as recognition from others, taking pride in your education or work, awards, and/or prestige.

The highest level is self-actualization, which involves self-development and seeking challenges. For example, Nike's "Find Your Greatness" campaign was intended to spark greatness in ordinary people, not just professional athletes.

Link to Learning: Examples of Maslow's Five Needs

Check out this Snickers' "You're not you when you're hungry" commercial, which appeals to basic human physiological needs.



This Lysol "What It Takes to Protect" commercial appeals to the human needs for safety and security.



Consider this public service announcement (PSA) from the Ad Council that is dedicated to fostering a more welcoming nation where everyone can belong. How does it appeal to the human need for community and belonging?



One awesome esteem level example to check out is this one from Dove. Dove launched a campaign to boost female self-esteem and to celebrate female beauty in all shapes and sizes. The company also created “confidence-boosting boards” on Pinterest. The boards include self-esteem activities so girls and their parents can share words of encouragement.

Check out one of Nike’s commercials from the “Find Your Greatness” campaign. How does it appeal to the human need for self-actualization?



Maslow asserted that people strive to satisfy their most basic needs before directing their behavior toward satisfying higher-level needs, so it stands to reason that consumer buying behavior would follow this model. For example, you’d first have to fulfill your needs for food and shelter before you might consider putting money away for retirement or purchasing a home security system.

Link to Learning: Maslow and Marketing

Understanding Maslow’s hierarchy of needs will help you be an effective and impressive marketer. You’re going to see this model in many of your business courses, not just marketing, so take the time to learn about it. Check out this brief video that

may help you understand how to use Maslow's hierarchy of needs in marketing. Learn about why Maslow's hierarchy of needs matters.



Perception is the way in which people identify, organize, and interpret sensory information. It's another variable in consumer buying behavior because the perceptions you have about a business or its products or services have a dramatic effect on your buying behavior. What makes perception even more complex is that consumers can form different perceptions of the same stimulus because of three perceptual processes: selective attention, selective distortion, and selective retention. Let's take a closer look.

Every day, you're bombarded with marketing messages from TV commercials, magazine and newspaper ads, billboards, and social media ads. As of 2021, it was estimated that the average person encounters between 6,000 and 10,000 ads every single day (Carr, 2021). It stands to reason that you can't possibly pay attention to all of the competing stimuli surrounding you, so you'll pay attention to only those stimuli that you consider relevant to your wants and needs at the time and screen out the rest. That's the process known as selective attention.

Marketing in Practice: When Bombarding Backfires

Bombarding consumers with marketing messages can cause more harm than good. According to this article from Marketing Dive, bombarding people with ads would negatively impact a brand. This article from the Advertising Association shares data that indicates bombardment and intrusiveness negatively impact perceptions of advertising.

How can you combat the issue? Quantcast outlines ways to avoid ad bombardment.

Careers In Marketing: It's about Ability

Your personal brand will be a significant factor when it comes to finding a job. What does your personal brand say today? What is your marketing story? Is it what you want it to be? If not, what will you do to change it? The end-of-chapter content includes various ways to explore your personal brand to help you prepare for your job search.

How are you going to stand out among other candidates? What can you do with your resume? According to Jason Shen's TED Talk, you should highlight your abilities and not your experience. He speaks to potential and how you can make yourself more attractive to potential employers by telling a story in a compelling way.



According to the American Marketing Association (AMA), you need to know yourself well. Self-knowledge will help you know the kind of work environment you perform best in and what kind of work you enjoy most. The AMA is a great place to learn how to stand out as a marketing job applicant, target companies, prepare your best resume, and have a successful interview.

Check out these sources on how to stand out and ways you can beat the competition:

- Freeman+Leonard: "How Marketers and Creatives Can Stand Out in Today's Competitive Job Market"
- Recruiter.com: "13 Tried-and-True Creative Tactics Candidates Have Used to Stand Out in Interviews"
- Acadium: "Launch Your Digital Marketing Career: How to Stand Out as a Candidate"
- Indeed: "8 Marketing Interview Questions to Expect"
- Entrepreneur: "Building Your Brand Is How You Will Stand Out When Applying for a Job"
- Smart Insights: "7 Tactics to Help You Stand Out as a Marketer and Get Better Jobs"
- 24 Seven: "10 Tips to Ace Your Next Marketing Job Interview"

If you want to go the extra mile in making yourself stand out, reach out to current marketers and ask them questions. You can find hundreds, even thousands, of current marketers on LinkedIn. Try targeting people from companies you're interested in or would like to learn more about. Look for specific people who are doing jobs that interest you. Going to an interview armed with information is incredibly powerful and will speak volumes to your interviewer. Be sure to find a way to work your completed research into the interview conversation because it will speak to your drive, curiosity, and ambition—all traits every interviewer wants to hear about. This will also be another way you can stand out from others interviewing for the job. Questions you could ask current marketers in preparation for an interview include (but by no means are limited to):

- What about you stood out in your interview process that made your current company hire you?
- Can you tell me about examples of people you've interviewed and why they stood out to you?
- How have candidates stood out when they spoke about their abilities in a job interview scenario?
- What are your thoughts on candidates sharing a college project with you as a way to demonstrate abilities?
- What advice do you have for me?

Be creative with your questions! Look online for other questions you could ask. Have fun!

Even the stimuli that people notice don't always come across in the way in which the marketers intended. Selective distortion is the tendency of people to interpret information in a way that fits their preconceived notions. This was demonstrated years ago when PepsiCo launched its Pepsi Challenge blind taste test commercials. Participants were presented with two colas in unmarked plastic cups and asked to taste both colas and choose the one they liked better. Then the tester would lift a small screen to reveal the brand the participants preferred. In TV commercials that aired for years, Pepsi showed the stunned reactions of loyal Coca-Cola drinkers

who had chosen Pepsi over Coke in the test. One grandmother in a commercial said, “I can’t believe it. I’ve never had a Pepsi in my life, but it must be better" (Sridharan, 2022).

People also tend to forget much of what they learn and to retain information that supports their preconceived attitudes and beliefs. That’s the power of selective retention, a bias by which you’re more likely to remember messages that are closely related to your interests, values, and beliefs rather than those that are contrary to those values and beliefs.

Beliefs, feelings, and attitudes also play an important role in consumer buying behavior. Beliefs are consumer perceptions of how a product or brand performs relative to different attributes. These beliefs are generally formed through personal experience, advertising, and conversations with others, and they play a vital role because they can be either positive or negative. You can even hold both positive and negative beliefs about the same thing. For example, you may believe that coffee is good for you because it helps you focus and stay alert, but you may also worry about the effect of coffee on your health and the way it stains your teeth. Human beliefs aren’t always accurate and can change according to the situation.

Consumer attitudes are a composite of a consumer’s beliefs, feelings, and behavioral intentions toward a product or service (see Figure 3.9).

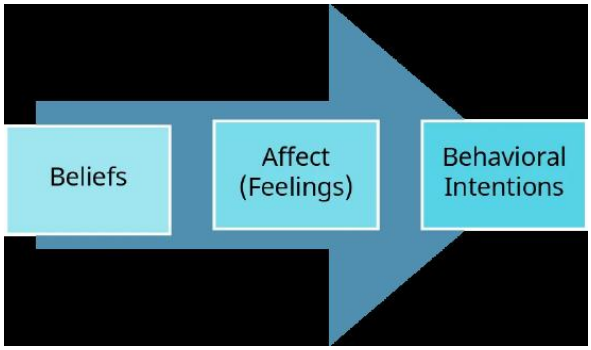


Figure 3.9 Components of Attitudes (CC BY 4.0; Rice University & OpenStax)

We’ve already talked about beliefs, so let’s focus for a moment on affect, or feeling. Consumers often have certain feelings toward brands, products, or services. Sometimes these feelings are based on people’s beliefs, such as a vegetarian who can’t stand the thought of eating a hamburger, but you may also have feelings that are relatively independent of your beliefs. For example, someone who has strong environmentalist beliefs may object to clearing forests to make way for a housing development but may have positive feelings toward Christmas trees because they subconsciously associate these trees with the experience that they had at Christmas as a child.

The behavioral intention aspect of an attitude is what you as a consumer plan to do—buy the brand or not buy the brand. As with affect, this is sometimes a logical consequence of your beliefs but may sometimes reflect other circumstances. Consider a consumer who doesn’t particularly like a restaurant but will go there because it’s an after-class gathering spot with her friends (Perner, 2018).

Learning is still another important factor in consumer buying behavior. The fact is that consumer behavior is learned, and much of what you buy is based on your previous experiences with particular brands. This is commonly known as the Law of Effect, which asserts that, if an action is followed by a pleasant consequence, you’re likely to repeat it; if the action is followed by an unpleasant consequence, you’re less likely to repeat it. For example, let’s say you buy an Apple iPhone. If your experience with the iPhone is positive, you’ll probably be more inclined to buy another Apple product when you’re looking for a tablet or wearable. On the other hand, if you’ve had a not-so-positive experience with your iPhone, you’re likely to look at other brands when considering purchasing other devices.

Marketing in Practice: Lessons in Psychology

Psychology is a big part of marketing. Insight into your customers’ thinking will allow you to create marketing messages and stories that better speak to their needs. Learning, the process where customers acquire information they can apply to future purchases, is a foundational concept in marketing. Learn about the various types of learning and how they can impact marketing strategies from this Forbes article.

Situational Factors That Impact Consumer Buying Behavior

Situational factors influencing consumers are external (refer to Figure 3.10). These factors play an important role in how consumers experience a product and how these consumers' opinions are formed.

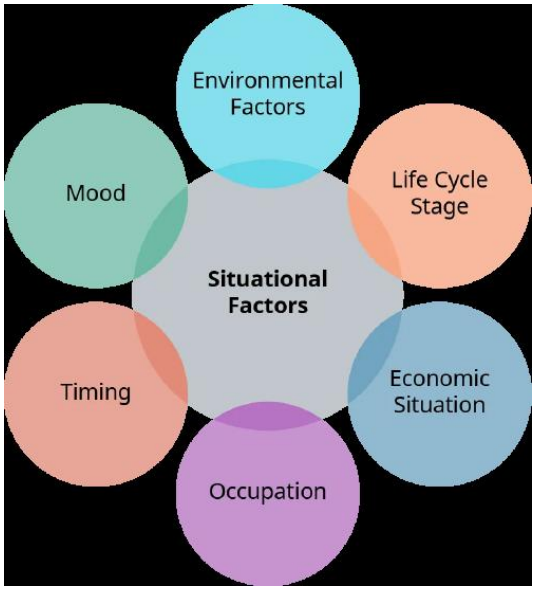


Figure 3.10 Situational Factors Influencing Consumer Buying Behavior (CC BY 4.0; Rice University & OpenStax)

Environmental factors such as music, lighting, ambient noise, and even smells can either discourage or encourage a consumer's purchase decision. For example, researchers conducted a study on the effect of lighting on consumer purchases in a grocery store. They lit half the store with traditional fluorescent lighting and the other half of the building with LED lighting. Researchers conducted the study over 21 weeks and discovered that consumers bought 25% more products on the LED-lit side of the store (Status Unlimited, 2021).

Spatial factors also play a role. The way a product is displayed may make it seem desirable, but a crowded store or a long line at the cash register can suddenly make that same product seem less desirable. Think about it: Have you ever seen a long line to check out at the cash register and put the product you intended to buy back on the shelf because it simply wasn't worth wasting your time standing in line?

The Marketing in Practice feature box shows how sound and smell can affect consumers.

Marketing in Practice: Abercrombie & Fitch



Figure 3.11 Psychological factors like smell and sound affect buying behavior, so Abercrombie & Fitch utilizes fragrances and music as a way to attract customers. (credit: "Abercrombie & Fitch" by prayitnophotography/flickr, CC BY 2.0)

As consumers, people usually don't think twice about what a store smells or sounds like, how it makes them feel or think, or what it makes them do. But Abercrombie & Fitch (A&F) thinks about it a lot (see Figure 3.11).

The company has its own line of men's fragrances called "Fierce," which is sprayed liberally in stores to give off what the company describes as a "lifestyle . . . packed with confidence and a bold, masculine attitude." A&F knows who it wants in its stores, and by associating its fragrance with its stores, it creates a self-fulfilling prophecy for its male clientele who, by wanting to smell like A&F, will be like the models and sales staff in the store.

A&F also plays loud club music throughout its stores, attracting young people who can withstand loud music longer, while older customers may run from it. It's just another way that A&F enables its stores to maintain a more youthful clientele and a "fresher" image (Khan, 2016).

Watch this video on Abercrombie & Fitch's brand transformation for further insight into how A&F has positioned its retail brand Hollister as a global iconic teen brand and modernized the A&F brand to focus on young millennial consumers.



The social situation of shopping is another situational factor. Did you know that you're more likely to stop to look at certain products when you're in the company of a friend rather than a parent? The social aspect can even alter the price you're willing to pay. You might be more inclined to purchase a more expensive product when you're with a colleague or potential partner than you would if you're with a friend or spouse (Severson, 2017).

The goal of your shopping trip is yet another situational factor. If you go to a store to look for a birthday present for your mother, your purpose is totally different than if you're casually shopping for a new pair of shoes. The reason for shopping dictates the kinds of products customers are willing to interact with at that time and may cause them to bypass certain products they would normally interact with on another shopping trip. This is even true at the grocery store. You'll interact with products differently if you're on your weekly shopping trip versus simply going into the store because you're out of milk.

Much like the purpose of your shopping trip, timing also influences your consumer behavior. If you're in a rush because it's Christmas Eve and you haven't bought a present for your best friend yet, you'll interact with fewer products than if you have hours to shop. Even if two people are looking for the same type of product, the one in a rush will probably end up with the most accessible product, whereas the leisurely consumer has time to weigh the price and quality of offerings.

Finally, your mood influences your buying behavior. Someone who is feeling sad or stressed interacts differently with products than a happy, relaxed shopper. The same can be said for someone who's fatigued versus someone full of energy.

Marketing in Practice: Situational Factors

There are many examples where companies use situational factors in their marketing approaches. Here are several online sites and specific articles:

- Marriott International, Inc.: "Transported by Fragrance: Westin and the White Tea Signature Scent"
- Lelior: "What is Scent Marketing and How Can It Boost Your Sales?"
- Sync Originals: "10 Brands That Made Music Part of Their Marketing DNA"
- Modern Place: "The Importance of Lighting in Retail Stores: Enhancing the Shopping Experience"
- LinkedIn: "The Psychology of In-Store Audio: How Sound Influences Consumer Decision-Making in Grocers and Supermarkets"

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

You're at the shopping mall looking for a new pair of shoes when you smell the wonderful aroma of freshly baked pretzels. Before you know it, you've bought a giant pretzel with cheese sauce. What type of factors influenced your purchase?

a. Psychological factors
b. Social factors
c. Situational factors
d. Personal factors

2.

Traditionally, in China, the bride's wedding gown is red because the color is associated with good luck, happiness, and prosperity. Which influence on consumer buying behavior does this illustrate?

a. Culture
b. Social class
c. Lifestyle
d. Personality

3.

Jazmine purchases a wireless alarm system for her apartment. According to Maslow's hierarchy of needs, which level of needs does this purchase reflect?

a. Physiological
b. Safety/security
c. Self-esteem
d. Social

4.

The tendency of people to interpret information in a way that supports what they already believe is known as _____.

a. cognitive dissonance
b. selective attention
c. selective retention
d. selective distortion

5.

Attitudes are a composite of a consumer's beliefs, feelings about, and _____ toward a product or service.

a. predispositions

b. behavioral intentions
c. preconceived notions
d. attributions

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3.4: The Consumer Purchasing Decision Process

Learning Objectives

By the end of this section, you will be able to:

- Explain the first stage in the consumer purchasing decision process.
- Summarize the second stage in the consumer purchasing decision process.
- Describe the third stage in the consumer purchasing decision process.
- Discuss the fourth stage in the consumer purchasing decision process.
- Explain the fifth and final stage in the consumer purchasing decision process.

Consumer Decision Process

This chapter has examined many of the factors that influence consumer buying behavior, but behind the visible act of making a purchase lies an important decision process that takes place before, during, and after the purchase of a product or service. Figure 3.12 shows the five stages of the consumer decision process.

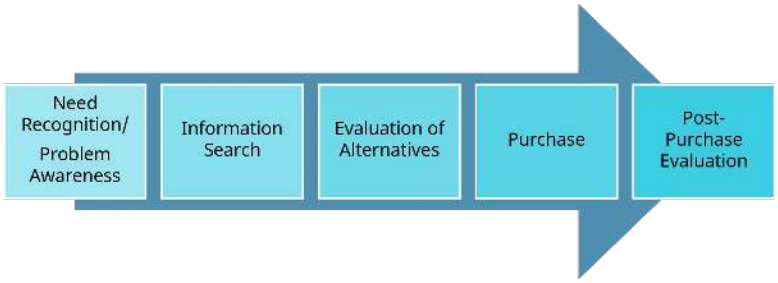


Figure 3.12 The Consumer Decision Process (CC BY 4.0; Rice University & OpenStax)

A buyer passes through five stages of the consumer decision process when choosing which products or services to buy. Let's examine each, starting at the beginning.

Stage 1: Need Recognition

The buying process starts when you sense a difference between your actual and desired states. This is referred to as problem awareness or need recognition. You might become aware of a need through internal stimuli (such as feeling hungry or thirsty when you're on a long road trip) or external stimuli (such as passing a bakery and smelling the wonderful aroma of cookies baking).

Sometimes, recognizing the problem or need is easy. You've run out of toilet paper or milk. But other times, recognizing the problem or issue is more complicated. For example, think about this first stage in terms of your decision to enroll in college. What was the stimulus that triggered your interest in attending college? Are you a working adult who has recognized that upward advancement in your company won't happen without possessing a college degree? Have you long aspired to be an entrepreneur and wanted to get some business and marketing courses under your belt so that you're better prepared for the challenges of entrepreneurship? Perhaps a career in marketing has been on your internal radar since high school, and you've decided to take the plunge and get your degree in marketing. Or perhaps your parents gave you an ultimatum after you graduated from high school—either find a job or enroll in college.

Stage 2: Information Search

Now that you've identified the problem or need, you'll be inclined to search for more information. There are two different search states. The milder search state is called "heightened attention," in which you become more receptive to information about the product or service. The stronger search state is called "active information search," in which you might do some research about the product or service on the Internet (referred to as an internal search), ask friends and/or family members their opinions (what's known as an external search), or even visit stores to view and touch the product (called an experiential search).

Keep in mind, of course, that not all needs/problems identified in Stage 1 will require this second stage. If you've run out of bread or toilet paper, you're probably not going to do an information search; rather, you'll just go to the store to buy what you need, and

your information search may be as simple as checking prices at the grocery store to see if your favorite brand is available or another brand is on sale. However, more consequential purchase decisions will usually trigger an information search.

Again, consider the process you went through in deciding which college to attend. What sources of information did you use to find out about the colleges or universities you considered attending? Did you look at their websites, talk with friends or family who attended that school, or perhaps even visit the campus and meet with an admissions counselor?

Stage 3: Evaluation of Alternatives

Consumers are said to view a product or service as a "bundle of product attributes," and you evaluate several attributes of a product or service in reaching your purchase decision. For example, if you're buying a smartphone, you'll consider factors such as battery life, speed, storage capacity, or price. If you're booking a hotel, you'll probably consider its location, cleanliness, free Wi-Fi, whether it has a free breakfast in the morning or a pool, and, of course, price.

What bundle of attributes did you use when evaluating your college alternatives? You may have considered factors such as location and campus size, whether the school had the program of study you wanted, whether it had online learning, and cost.

Stage 4: Purchase Decision

This stage involves actually reaching a decision on the purchase of the product or service. One way people navigate all the information, evaluations, and choices in their purchase decision is to use heuristics—mental shortcuts or "rules of thumb." Heuristics are types of preexisting value judgments that people use to make decisions.

For example, do you believe that the more expensive product is always of higher quality than the lower-priced product? That's known as the price = quality heuristic. Brand loyalty is another heuristic people use in reaching their purchase decisions. For example, do you eat cereal? Do you always buy the same brand, or do you buy whatever's on sale or a brand for which you have a coupon? Country of origin is still another heuristic. Given a choice, do you prefer to buy products made in the United States versus products made in other countries?

How did you make your purchase decision to enroll in your college or university? What heuristics did you use?

Stage 5: Post-Purchase Evaluation

After purchasing the product or service, you'll experience either satisfaction or dissatisfaction. You may have second thoughts after making a purchase decision, and these doubts lead to cognitive dissonance, or buyer's remorse—tension caused by uncertainty about the correctness of your decision. This may lead you to search for additional information to confirm the wisdom of your decision to reduce that tension.

What determines whether a consumer is very satisfied, somewhat satisfied, or dissatisfied with his or her purchase? Satisfaction is a function of how closely the buyer's expectations match product's perceived performance. If the product's performance falls short of expectations, you'll be dissatisfied. If the product's performance meets your expectations, you'll be satisfied, and if the product's performance exceeds your expectations, you'll be very satisfied.

Think about the purchase decision you made when you decided to enroll in your college or university. Are you very satisfied, satisfied, or dissatisfied with your decision? Refer to Table 3.1 for a summary of the five stages of the consumer decision process.

Summary of the five stages of consumer decision process.

Stage	Description
Stage 1: Need Recognition	The buying process actually starts when you sense a difference between your actual state and your desired state. This is referred to as problem awareness or need recognition. You might become aware of the need through internal stimuli (such as feeling hungry or thirsty on a long road trip) or external stimuli (such as passing a bakery and smelling the wonderful aroma of baking cookies).
Stage 2: Information Search	Once the problem of need is identified, the next step is to search for more information to help you make a choice. There are two different search states—heightened attention and active information search.
Stage 3: Evaluation of Alternatives	This is the stage in the process where you'll evaluate several attributes of the product or service in deciding on a purchase.
Stage 4: Purchase Decision	This stage involves actually deciding on the purchase of the product or service.
Stage 5: Post-Purchase Evaluation	After purchasing the product or service, you'll experience satisfaction or dissatisfaction. You may have second thoughts after making the purchase decision, and these doubts lead to cognitive dissonance, or buyer's remorse. This may lead you to search for additional information to confirm the wisdom of your decision to reduce that tension.

Table 3.1 Five Stages of the Consumer Decision Process

Careers In Marketing: You Are Also a Consumer

Learn about the five stages of the consumer decision process in this video from Open Up (Upatras) Entrepreneurship and this article from Business Study Notes.



GWI, a company that researches global consumer thinking, published its 2022 consumer trends report, which showed that consumers' needs and priorities have shifted. Read the report and see if you find the same results for yourself. Have your priorities and needs changed since the pandemic hit? What are the other factors influencing your needs assessment?

Several tools can help you with a personal needs assessment. Practice your marketing skills on yourself by trying this needs assessment worksheet. This personal awareness will help you in many ways, including finding the right job that best fits your interests and abilities. Also, take a few assessments and compare your results to better identify jobs worth learning more about. There are several free career aptitude tests to try:

- 123 Career Test
- Interest Assessment
- Work Values Matcher
- A Personality Color Test

In addition to career aptitude tests, personality tests assess your skill level and your ability to succeed in a career. Try a few of these:

- Typology Central Jung Personality Test
- Myers-Briggs Type Indicator

The Balance Careers site also provides a wealth of resources on additional aptitude, personality, talent, and pre-employment tests. It's worth your time to dive into this information to help you identify which career might be your best fit.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Janelle and her sister are planning a reception for their parents' 50th wedding anniversary. They have looked at several venues, comparing size, location and accommodations, photo opportunities, and parking. What stage in the consumer decision process model does this best illustrate?

a. Need recognition
b. Information search
c. Evaluation of alternatives
d. Purchase decision

2.

Ra'Shana's car broke down on the way to work, and she realizes that she needs to find a repair shop quickly to take care of her vehicle. Which stage of the consumer decision process model does this represent?

a. Need recognition
b. Information search
c. Evaluation of alternatives
d. Purchase decision

3.

Jason is considering buying a new laptop computer. He is researching different models based on factors such as the processor, the hard drive capacity and speed, RAM, operating system, and price. He has also asked a few friends what they like and dislike about their laptops. Which stage of the consumer decision process model does this illustrate?

a. Problem identification
b. Evaluation of alternatives
c. Information search
d. Post-purchase evaluation

4.

What is a heuristic?

a. It is the mental conflict that occurs when a person's behaviors and beliefs do not align.

b. It is a mental shortcut that allows people to solve problems and make judgments more quickly and efficiently.
c. It is a function of the closeness between your expectations of a product or service and its actual performance.
d. It is the process of assigning the cause of behavior to either internal or external characteristics.

5.

Nathan and his husband have decided to purchase a new car. They have narrowed their list to a few models and visited a few dealerships to see the models and test-drive them. Which stage of the consumer decision process does this illustrate?

a. Need recognition
b. Information search
c. Evaluation of alternatives
d. Purchase decision

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3.5: Ethical Issues in Consumer Buying Behavior

Learning Objectives

By the end of this section, you will be able to

- Describe ethical issues related to consumer buying behavior.
- Identify the characteristics of an ethical consumer.

Ethical Issues in Consumer Buying Behavior

All purchase behavior is, in some sense, ethical, involving moral judgment. For example, a consumer is concerned about the abuse of human rights in a foreign country, so corporate involvement in that country may be a factor in the consumer's purchasing decisions. Similarly, consumers concerned about animal rights may consider whether a cosmetic product has been tested on animals. For example, in one 2017 survey, 32% of U.S. cosmetics consumers reported that they would "very likely" stop purchasing their favorite brand if the manufacturer tested on animals (Statista Research Department, 2017).

Ethical Consumerism

Economic theory suggests that consumers seek to maximize utility (the total satisfaction received from consuming a product or service) at the lowest cost possible, so it follows that firms that have higher costs of production will be driven out of the market. Recently, more and more firms have started using "ethical" labels as a means of product differentiation, a marketing strategy in which a brand identifies the one thing that makes it genuinely different from competitors and then leverages that notion in its branding and messaging. But what does this look like in action? Let's take a quick look at one popular brand that honed its differentiation strategy and succeeded as a result.

Like many fast-food chains, Chipotle (see Figure 3.13) focuses on the quality of its ingredients above all else. One of the brand's hallmarks is that it works with family farmers within a 130-mile radius of each location and attempts, whenever possible, to source local and sustainably raised ingredients. Additionally, Chipotle eliminated genetically modified (GMO) foods from its menu, citing public concerns about the safety of genetically modified ingredients (Herosmyth Staff, 2020).



Figure 3.13 Chipotle works with family farmers and has eliminated genetically modified foods as a way to differentiate itself in the market. (credit: "Chipotle" by JeepersMedia/flickr, CC BY 2.0)

Marketing in Practice: Ethics and Corporations

Hundreds of companies are known for being ethical, including Patagonia (more information later in this chapter), TOMS, and Conscious Coffees, among others. Read about five examples of truly ethical companies and how they are working to make an impact in their markets.

Business Insider provides a list of the most ethical companies in the world. Do any of the companies on this list surprise you? Are there companies missing that you think should be included?

What corporate ethical decisions are you aware of that have positively impacted a company's brand? Here are 10 examples where companies made the ethical decision.

Many consumers research companies before making a purchasing decision. Is a company's ethical footprint important to you? Does it impact where you purchase products and services? Why or why not?

Are You an Ethical Consumer?

At its most basic level, being an ethical consumer simply means choosing goods that are ethically sourced, produced, and distributed. Ethical consumerism has become something of a buzzword over the last decade, and organizations are taking notice of consumers' expectations in terms of social and environmental practices. Consider some statistics to better understand how consumers put ethical consumerism in practice:

- According to a Statista poll, 90% of U.S. survey respondents indicated that they would boycott a brand if they discovered the company was engaged in irresponsible business practices (Yaqub, 2022).
- Research from Mintel, a market research firm, indicates that 56% of U.S. consumers indicate that they would no longer do business with organizations they believe to be unethical (Yaqub, 2022).
- A recent survey showed that consumers seek a match between their beliefs and those exemplified by the organization. According to the survey, an overwhelming 72% of respondents indicated that they purchase goods and services from companies with beliefs similar to theirs in terms of environmental preservation and child labor (Yaqub, 2022).

By choosing brands that align with their values, consumers are voting with their pocketbooks. Modern consumers are more than willing to take their business elsewhere if they perceive a disconnect between their values and those of the organization, and they will likely share their sentiments on social media.

Marketing in Practice: Consumer Ethics

Do consumers care about ethics when making a purchasing decision? You can find marketers on both sides of the fence on this hotly debated topic. Some studies show that consumers are interested in products that align with their values. Other studies show that consumers aren't interested. According to an article from *Kellogg Insight* (a publication from the Kellogg School of Management at Northwestern University), current research by Jacob Teeny, an assistant professor of marketing at Kellogg, suggests that consumers care.

This Jason Garman TEDx Talk focuses on ethical consumerism and the power of having a choice and a voice through purchasing decisions.



Are you new to ethical shopping? Watch this video to learn the basics about shopping ethically. Also, check out this article for specific reasons to be an ethical consumer.



This hotly debated topic is becoming a larger part of the conversation in marketing with the increase of eco-friendly products on the market. It's important in your marketing work that you're aware of the discussion, as it will help you to become a great marketer.

Companies with a Conscience: Patagonia



Figure 3.14 Patagonia is known for its ethical leadership and environmental mission. (credit: "Trekkin!" by Pierce Martin/Zach Dischner/flickr, CC BY 2.0)

If you're looking for a company that's a leader in environmental and social responsibility on many fronts, look no further than Patagonia, a designer of outdoor clothing gear for the "silent sports"—climbing, surfing, skiing, snowboarding, fly fishing, and trail running (see Figure 3.14). Start with Patagonia's mission statement: "Build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis."

In addition to being fair-trade certified for all of its sewing production, the brand knows and publicly discloses all of its first-tier suppliers and is actively working to map out the rest down to the farm level for the raw materials used in its gear. Many consider Patagonia an outdoor brand, but it offers products in many categories, from sundresses to skinny jeans (Baldwin, 2017).

Many of the company's products are made from recycled materials or raw organic cotton. Plastic soda bottles are made into fleece jackets, guayule plants are made into wetsuits, and they take back worn-out Patagonia products that consumers return to

the store at no charge and then recycle them into their supply chain. Look no further if you want to be an ethical consumer (Dore, 2021).

Click here to learn more about Patagonia's environmental responsibility program.

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3.6: Chapter Summary

This chapter defined consumer markets and consumer buying behavior and discussed the buyer's black box, the concept that attempts to mark the pattern consumers follow when making a purchase decision. It also categorized consumer buying behavior into four types: complex buying behavior, dissonance-reducing buying behavior, habitual buying behavior, and variety-seeking buying behavior.

This chapter also looked at the cultural, social, personal, psychological, and situational factors that influence consumer behavior and scrutinized the stages of the consumer decision process. Finally, it examined the role of ethics in consumer buying behavior and discussed ethical consumerism.

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3.7: Key Terms

4Ps | the “marketing mix”—product, price, promotion, and place

attitudes | a learned set of emotions, beliefs, and behaviors developed toward a particular brand, object, person, thing, or event

beliefs | ideas that a person holds as being true

buyer’s black box | a model used in the study of the buying behavior of consumers

cognitive dissonance | the mental conflict that occurs when a person’s behaviors and beliefs do not align; also referred to as buyer’s remorse

complex buying behavior | the consumer buying behavior that occurs when the consumer is highly involved with the purchase and perceives significant differences between brands

consumer buying behavior | the actions taken by consumers before buying a product or service

consumer decision process | the process through which consumers become aware of and identify their needs, collect information on how to best solve those needs, evaluate alternative options, make a purchasing decision, and evaluate their purchase

consumer market | a market where consumers purchase products and/or services for consumption

cultural factors | a set of values or ideologies of a particular community or group of individuals that include culture, subcultures, social class, and gender

culture | the pattern of learned and shared behavior and beliefs of a particular social, ethnic, or age group

dissonance-reducing buying behavior | any activity aimed at decreasing the tension or feelings of discomfort and unease that accompany an unfamiliar purchase

economic situation | a measure of a consumer’s income and financial situation

environmental factors | factors such as music, lighting, ambient noise, and smell that can either discourage or encourage a consumer’s purchase decision

family | a group of persons united by ties of marriage, blood, or adoption, or those who live in the same household

gender | the socially constructed roles, behaviors, and norms of individuals, which vary between societies and over time

habitual buying behavior | consumer buying decisions made out of “habit” and without much deliberation or product comparison

heuristics | mental shortcuts that allow people to solve problems and make judgments quickly and efficiently

learning | the acquisition of knowledge or skills through experience, study, or being taught

life cycle stages | various stages in a human’s life, including fetus, baby, childhood, adolescence, adulthood, and elderly

lifestyle | the habits, attitudes, tastes, moral standards, economic level, etc. that together constitute the mode of living for an individual or group

Maslow’s hierarchy of needs | a theory of motivation by Abraham Maslow which states that five categories of human needs dictate an individual’s behavior

motivation | the process that initiates, guides, and maintains goal-oriented behaviors

occupation | an activity or task with which one occupies oneself, usually the productive activity, service, trade, or craft for which one is regularly paid

perception | the manner in which sensory information is organized, interpreted, and consciously experienced

personality | the combination of characteristics or qualities that form an individual’s distinctive character

product differentiation | a marketing strategy in which a brand identifies the one thing that makes it genuinely different from competitors

reference groups | groups that consumers compare themselves to or associate with

roles | the set of norms, values, behaviors, and personality characteristics attached to a status

selective attention | the process of directing one’s awareness to relevant stimuli while ignoring irrelevant stimuli in the environment

selective distortion | a tendency of people to interpret information in a manner that supports what they already believe

selective retention | the tendency of people to retain only part of the information to which they are exposed

social class | a group of people within a society that possesses the same or similar socioeconomic status

social factors | factors that are prevalent in the society where a consumer lives

status | the relative social, professional, or other standing of an individual

subculture | a cultural group within a larger culture, often having beliefs or interests at variance with those in the larger culture

variety-seeking buying behavior | the buying tendencies of consumers who do not have a high involvement with a product when there are significant differences between brands

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3.8: Applied Marketing Knowledge- Discussion Questions

1. What sort of purchasing behavior do you, as a student, exhibit? Do you stop by a convenience store and buy a soda on the way to class? This is convenience shopping behavior, and the business is located conveniently in your daily pathway. Do you sometimes buy a different beverage, perhaps an energy drink or a bottled iced tea? You're exhibiting variety-seeking behavior. When the time came for you to choose your college, what sort of shopping behavior did you engage in?
2. You belong to many membership groups. You might be a member of the college soccer team or sing in a choir. Right now, you likely aspire to join the group of college graduates. Why is it so important for marketers to know which groups consumers have joined or refer to when making purchases?
3. Businesses send you thousands of marketing messages each day through the radio, TV, Internet, billboards, and bus benches. You sort through these messages, perhaps unconsciously, and decide which ones to pay attention to. This is called selective attention. Which messages are most influential right now in your life as a student? Messages regarding your social life? Personal life? Psychological factors relating to your motivation to try a new product? Cultural factors such as gender-related products? A situational factor such as a flat tire? Where would you find an example of each message?
4. Provide a recent example of a purchase you made and describe your progress through the stages of the consumer decision process model.
5. You just locked your door and are heading out to get a haircut. How do these two needs—safety through the locked door and esteem through the haircut—fit with Maslow's hierarchy of needs? Why is this hierarchy helpful for marketers in understanding human needs and resulting buying behavior?

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3.9: Critical Thinking Exercises

1. Research has shown that consumers' buying behavior changes over time, reflecting their age or stage of the family life cycle. Visit Salesfloor.com and click here to read the summaries this site offers on age-based shopping habits. Do you agree with research findings that despite being bombarded with digital content, Zoomers still prefer to stop in store? Before purchasing, do you research products thoroughly through search engines, reviews, and social media? Explain why you agree or disagree with this study's conclusions about generational buying behavior.
2. One way consumers evaluate alternatives is by identifying the "bundle of attributes" of a product or service. Assume that you're in the market for a new smartphone. What would that bundle of attributes look like? In other words, what attributes do you consider important, and how would you rank the importance of these features on a scale of 1 to 5, with 5 being the attribute of greatest importance and 1 being the attribute of lowest importance? Some attributes are already listed, but you can add your own attributes as well. Complete Table 3.2 with your rankings.

Table to rank your "bundle of attributes"

Attributes Considered	Importance of Attribute
Storage	
Battery Life	
Processing	
Price	
Ease of Use	
Durability	
Camera Quality	

Table 3.2 The Bundle of Attributes

3 . Delve into McDonald's, a company mentioned at the beginning of this chapter. Does McDonald's have an environmental sustainability statement? If so, list evidence showing how McDonald's carries out this policy.

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3.10: Building Your Personal Brand

Knowing yourself well is essential to helping you identify your personal brand. How would you characterize your personal brand right now? Is it what you want it to be?

There are numerous free tools to help you gain self-awareness. The Careers in Marketing section earlier in this chapter lists numerous resources that you could try. Or you can try this short personality assessment similar to the Myers-Briggs Type Indicator. After you complete the assessment, your personality information will be revealed. You'll learn if you're extroverted or introverted, thinking or feeling, sensing or intuitive, and judging or perceiving. The results are shown as a four-letter acronym (for example, ENFP or ISTJ), and there are 16 possibilities that could arise.

Is the outcome a surprise to you, or is it as expected? Does it help explain some of your friendships, how you approach your studies, or what feelings you have? Keep your personality type in mind as you gain a better understanding of yourself and others, especially as you begin to develop and express your personal brand.

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3.11: What Do Marketers Do?

Have you ever wondered where analysts gather consumer behavior data and how they make sense of it? One way to find out is to ask someone who currently does this job. Using LinkedIn, conduct a search for data analysts in your geographic area and invite one or more to connect with you through the LinkedIn platform. Once connected, send a message to each one telling them who you are and that you're a marketing student. Request a 15-minute phone conversation with them to ask them about their job. Come prepared to the phone conversation with a list of questions you want to ask. Be prepared to go off script and ask questions that come to mind on the spot. You can learn a lot about various marketing careers, and you can make great contacts by simply asking the right questions! What questions do you want to ask? You might consider some of the following:

- How did you get started in this area of marketing?
- Where do you collect data from, and how do you complete an analysis?
- What happens after you conduct an analysis?
- Do you help make marketing decisions based on your analysis?
- What areas of the company does your analysis impact?
- What specific courses did you take to prepare you for this job/career?

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3.12: Closing Company Case

Wired Coffee Bar



Figure 3.15 Recognizing an opportunity to open a coffee shop in a small community where none existed, its proprietors launched Wired Coffee Bar. (credit: reproduced with permission of Wired Coffee Bar)

During high school and college, Lisa worked in an upscale retail boutique. On the mornings Lisa opened the store, she grew to love the deep, rich smell of the coffee that would permeate the air from the local gourmet food store across from the boutique. Her love for coffee only deepened as she experienced local cafés throughout her travels while in college. In the back of her mind, she glamorized opening her own café.

Throughout her early thirties, Lisa looked at locations, talked with coffee entrepreneurs, developed business feasibility studies, and dreamed of one day having her own place. One big problem was finding the right geographical area where a small, independent coffee shop would be successful.

After moving for the fifth time, Lisa realized the new, growing community where she now lived with her two small children lacked one important thing—good coffee. The town was rapidly expanding and was the fastest-growing community in Tennessee. This might be the time and place to revisit the idea of a coffee shop.

Every feasibility study Lisa completed pointed to the need for strong community support. This new town had two important ingredients—college students and a burgeoning population. The area was abundant with many different church denominations; a few small, local colleges; and some new international businesses that had recently relocated to the community.

With no coffee shop in the town, Lisa believed her concept could be successful. Currently, if you wanted a coffee, the nearest place to grab a cup was a Starbucks, which was more than 20 minutes away. Starbucks made specialty coffee mainstream, but it seemed that sitting down to enjoy a cup of coffee was becoming a thing of the past. As more and more people began grabbing their coffee from the drive-through, could a community coffee bar with a wide variety of seating options and complimentary Wi-Fi be successful?

Going forward with the idea, Lisa began to develop Wired Coffee Bar. Before opening, Lisa went to every local community event and provided free coffee for people to sample. Once the community had a taste of the coffee and an expectation for the opening, there was an eager clientele waiting in line on the first day of business. One customer even hugged Lisa to thank her for bringing coffee to the community.

The concept took off, and soon Lisa was a purveyor of fine coffee. Wired Coffee Bar was widely supported by the community. The local churches loved to meet for a coffee drink and connect with friends and neighbors. Throughout the day, business was conducted at the tables over a coffee, and into the evening hours, college students gathered to study and talk with friends.

If you looked at the clientele throughout the day, you could see the “grab and go” customers who came every morning to get their mochas, lattes, and cappuccinos. Into the late-morning hours, the tables filled up with business meetings—builders and their new clients, PTA groups, pharmaceutical sales reps strategizing for the day and grabbing coffee for customers, and moms meeting for coffee before picking up kids at school. As the afternoon wore on, the seats would fill up with high school students meeting with tutors and friends to complete homework. The later evening hours had every seat filled with college students doing class projects or just “hanging out” with friends.

Wired Coffee Bar had a focused niche of coffee and community. The menu wasn't complex. It featured just coffee—hot, iced, and frozen. Wired also offered a variety of teas that could be served hot or iced. Along with the drink options, customers could choose from a selection of sweet or savory locally baked muffins, scones, quiche, cookies, and coffee cakes. But Wired was not a restaurant; it was a true coffee bar.

With a regular and steady customer base, Wired could see the busier times happening when school was in session, and then summers saw a lighter revenue stream as the college students left and the local families took summer vacations out of town. The coffee business definitely needed local support to offset the vacation schedules of the college students.

Just as Wired Coffee Bar was hitting its stride, new coffee shops started to enter the once-dormant community. Each new coffee location offered a drive-through, something Wired Coffee Bar never wants to be—fast-food coffee. As Lisa looked at ways to create more business, provide good coffee, and differentiate from the masses, she wondered if her concept could survive the hustle and the need for quicker service and a less laid-back atmosphere.

For further resources, visit the company website. They also have a Facebook page and an Instagram account (@getwiredcoffee).

Case Questions

1. What type of consumer buying behavior are consumers exhibiting when buying coffee?
2. Consumers are faced with many different influences when they are making purchasing decisions. What social influences have the greatest impact on the decision to purchase coffee from Wired Coffee Bar? What personal influences have the greatest impact?
3. What situational factors may influence consumers to purchase from Wired Coffee Bar rather than Starbucks?
4. How might Wired Coffee Bar further differentiate itself from other coffee bars as consumers search for alternatives in their buyer decision-making process?

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CHAPTER OVERVIEW

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4.3: Buyers and Buying Situations in a B2B Market
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4.5: Stages in the B2B Buying Process
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4.10: Critical Thinking Exercises
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4.1: In the Spotlight

Say hello to RingCentral, a company that provides businesses with cloud-based business communications solutions that include messaging, video meetings, phone, and an omnichannel cloud contact center. RingCentral, a business-to-business (B2B) company, partnered with Medallia, a customer feedback management software platform. Soon after implementing Medallia, RingCentral was able to obtain important insights about product innovation and turn that feedback into product features and customer retention.



Figure 4.1 Business-to-business marketing is when one business sells products or provides services to another business, which involves building strong working relationships. (credit: "CC-BY-Mapbox-Uncharted-ERG_Mapbox-c086" by Mapbox Uncharted ERG/flickr, CC BY 3.0 US)

How did it do that? First, with direct access to customer feedback, the product teams at RingCentral can use that feedback to spur product feature innovations that meet customers' needs. Second, the company's sales and support teams were able to use that same customer feedback to tweak their training programs and support processes. The results? After rolling out the dashboards (visual displays of the information captured), the company's support team reached an average customer satisfaction (CSAT) score of 9/10 in two key market segments. "Without real-time customer feedback and the opportunity to close the loop with the customer when the feedback is fresh, this score would have been much more difficult," said Chad Freeman, RingCentral's customer support director.[1]

Link to Learning: RingCentral

To learn more about RingCentral's business model, watch this video of Jim Cramer, from CNBC's show *Mad Money*, interviewing RingCentral's CEO.



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4.2: The Business-to-Business (B2B) Market

Learning Objectives

By the end of this section, you will be able to:

- Define the business-to-business (B2B) market.
- Distinguish characteristics of the B2B market versus the business-to-consumer (B2C) market.

Business-to-business (B2B) is a marketing transaction or business conducted between businesses. It refers to businesses that sell products and/or services to other businesses, such as retailers or wholesalers, rather than consumers. These transactions can include everything from materials used in manufacturing to office supplies or furniture and everything in between. B2B's "counterpart" is what's known as B2C, or business-to-consumer. The focus in B2C transactions is selling products, goods, and services to consumers for personal use.

Many businesses have both B2B and B2C components. For example, consider Office Depot. You may have stopped into an Office Depot store before the semester to stock up on pens, a ream of paper for your printer, or notebooks. That's a B2C transaction. However, a large law firm or an accounting firm might order hundreds of reams of copy paper, folders, and print cartridges from Office Depot. That's a B2B transaction.

Characteristics of the B2B Market

B2B markets differ from B2C markets in several ways (see Table 4.1). Let's take a closer look at each of these differences.

Table of Business-to-Consumer Market (B2C) and Business-to-Business Market (B2B)

Business-to-Consumer Market (B2C)	Business-to-Business Market (B2B)
Buying decisions for individuals and/or households	Buying decisions for companies that serve consumers or other companies
Smaller purchases/many buyers	Larger purchases/fewer buyers
Direct demand	Derived demand
Shorter buying decision cycles	Longer, more complex buying decision cycles
More reliance on mass marketing	More reliance on personal selling
Many customers located throughout the world	Fewer customers, often geographically concentrated in areas based on cost, access, and availability of resources

Table 4.1 Differences between Consumer Markets/Buyers and Business-to-Business Markets/Buyers

- *Nature of the buying decision*. It may seem a little obvious, but it's important to remember that B2C buyers generally make buying decisions for themselves or their households, whereas B2B buyers make buying decisions for their companies, which serve either consumers or other companies. When you go grocery shopping, you're buying a loaf of bread, a gallon of milk, and a dozen eggs for yourself or your household. However, if you're buying food to be prepared and served at a large hospital or a university, the complexity and volume of that purchase will be far greater.
- *Fewer buyers, higher volume*. Another difference between the two markets is that B2B markets deal with fewer buyers, who purchase a much higher volume than the B2C market. For example, when Barnes & Noble sells textbooks to students, the potential market includes hundreds of thousands of students worldwide. These students purchase one or more textbooks for their semester's classes. However, Barnes & Noble is just one commercial buyer purchasing those hundreds of thousands of textbooks.
- *Direct demand versus derived demand*. Another difference between the two markets lies in the nature of product demand. B2C markets are driven by direct demand, the demand for goods and services for direct consumption purposes. By contrast, B2B markets are driven by what's known as derived demand, in that demand in the B2B market is dictated by the demand for

consumer goods on the B2C market. For example, as more workers are working from home, the demand for computers has risen. As a result, you'll see derived demand in computer-related products, such as mice, monitors, and printers.

- *Longer buying cycles*. As a general rule, the higher the dollar volume of the sale and the more complex the product, the longer it takes for the sale to be made. As a consumer in the B2C market, you might buy a desktop computer within a relatively short time after deciding that you need a new computer. In the B2B market, a hospital purchasing a magnetic resonance imaging (MRI) machine may well be spending millions of dollars, and the sale can take months or even years to accomplish. Not only will more people be involved in the decision-making process, but the hospital needs to be concerned with many factors, such as safety, reliability, and post-purchase service. A lot of time and effort is typically required to "close the deal" with a big-ticket item like an MRI machine. We'll be examining the stages in the B2B buying process in depth later in this chapter, but the B2B buying process is typically longer and more complex, not only because of the involvement of different decision-makers but also because these decision-makers must consider a wide range of factors when making high-volume or high-dollar purchases.
- *Reliance on personal selling*. Whereas B2C markets tend to rely more heavily on mass marketing, B2B markets typically are characterized by increased reliance on personal selling. Additionally, B2B purchasing is more likely to involve complex negotiations concerning price, delivery schedules, technical specifications, etc., so personal selling plays a vital role. Typically, because B2B buyers and sellers often need to work together to define problems and implement solutions, they focus on building long-term relationships rather than a one-and-done purchase. For example, it took nearly four years to negotiate the contract, but the Indian government and Airbus finally reached agreement on the purchase of 56 Airbus C295MW tactical transport aircraft from Airbus (Geyser, 2022).
- *Geographical concentration*. Finally, the scope of the market is different. In the B2C market, you have millions of potential customers dispersed throughout a region, a country, or perhaps the world. On the other hand, the B2B market is more concentrated. The B2B market has far fewer customers, and they are often geographically concentrated in areas based on cost, access, and availability of resources. Detroit (the heart of the US automotive industry) and Silicon Valley (home to many technology-based companies) are prime examples.

Careers In Marketing: B2B Jobs

If you're considering marketing for your job, B2B marketing is a career choice. Why would you want to go this path? Read this article from the author of *B2B Marketing Strategy*. If you're unsure what a B2B marketer would do, read this article on HubSpot to gain insight into the job role.

If you're still unclear on what B2B marketing is and how it differs from B2C, read this article from Business News Daily to gain more information. Get a sense for what the work looks like by using LinkedIn for B2B marketing.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

The demand for smartphones and similar devices has created a demand for other needed components, such as touch-sensitive glass screens, microchips, and circuit boards. This is an example of _____ demand.

a. direct
b. irregular
c. derived
d. negative

2.

Jason, a purchasing agent for an electronics firm, places an order with a supplier for diodes to be used in the manufacturing process. This is an example of a transaction in the _____ market.

a. B2B
b. B2C

c. B2G
d. C2C

3.

Alejandro is a salesperson for a company that manufactures electrosurgical units. He calls on hospitals in his sales region to familiarize the buying centers in the hospitals with the benefits of his company's equipment. Which difference between B2B and B2C markets does this scenario illustrate?

a. Longer, more complex buying decision cycles
b. More rigid product standards
c. More reliance on personal selling
d. More reliance on mass marketing

4.

Many of the world's high-tech companies are located in Silicon Valley, California, including the headquarters of more than 30 businesses in the Fortune 1000. Which difference between B2B and B2C markets does this illustrate?

a. More reliance on personal selling
b. Derived demand versus direct demand
c. Fewer customers, often geographically concentrated in areas
d. Larger purchases/fewer buyers than the B2C market

5.

DaVonte has a home repair business. He goes to a home improvement store to purchase a large quantity of lumber for his next repair project. While there, he picks up batteries for the smoke detector in his house. In this scenario, the lumber is a _____ purchase, and the batteries are a _____ purchase.

a. B2C; B2B
b. B2B; B2G
c. B2C; B2G
d. B2B; B2C

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4.3: Buyers and Buying Situations in a B2B Market

Learning Objectives

By the end of this section, you will be able to

- Identify the types of buyers involved in the B2B market.
- Describe the types of buying situations that exist in the B2B market.
- List and describe the parties who participate in the B2B buying process.

Types of Buyers in the B2B Market

The B2B marketplace is populated by many different types of buyers, each with their own requirements, policies, and procedures. Some B2B buyers (known as *producers*) purchase goods in the B2B market so they can produce other goods to be sold to other businesses or consumers. Other B2B buyers (known as resellers) purchase goods in the B2B market so they can resell, rent, or lease those goods or services. Still other B2B customers, such as the government and nonprofit institutions such as the Wounded Warrior Project, the Salvation Army, churches, and charities, purchase goods to serve the public in some way (Infographic World, 2022). These types of buyers are shown in Figure 4.2.

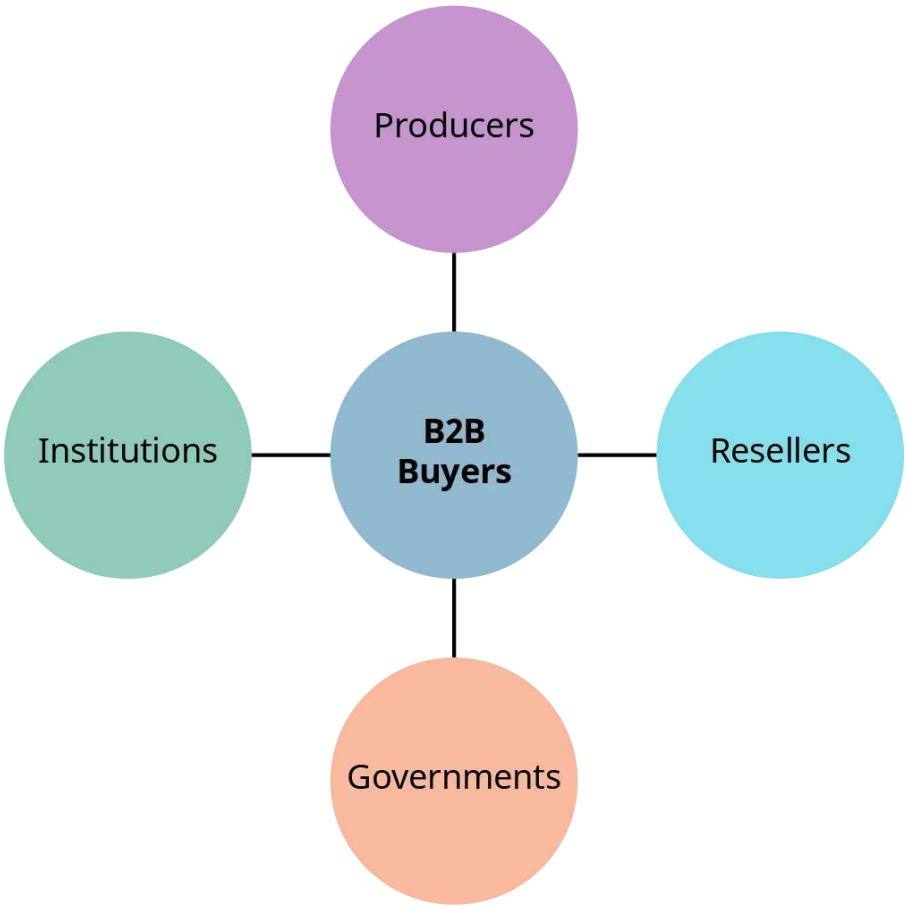


Figure 4.2 Types of Buyers (CC BY 4.0; Rice University & OpenStax)

Producers are companies that purchase goods and services that are transformed into other products, and they include both manufacturers and service providers. For example, in one of its divisions, Emerson Electric produces electronic controls for the heating, ventilating, and air conditioning (HVAC) industry. Its buyers need to purchase capacitors, printed circuit boards, resistors, diodes, and dozens of other components to build those controls. To make its sandwiches, Burger King needs beef patties, buns, lettuce, pickles, and other ingredients. Your local tattoo shop needs tattoo ink and needles. You've likely bought a smartphone. Imagine the dozens of components in the product's manufacturing—circuit boards, LCDs, speakers, microphones, batteries, etc.

The producer needs to purchase these components from various vendors. This is a large market for B2B sellers because producers don't typically buy in small quantities. For example, OSI supplies 45 million pounds of steak, salsa, beans, and other food products for Chipotle and has been supplying meat to McDonald's for over 50 years. From a marketing perspective, that's the kind of B2B relationship you want to pursue (Lamare, 2020)!

Resellers sell goods and services produced by other companies without any material change. These resellers include retailers, wholesalers, and brokers. This is a very important segment in the B2B market because these resellers typically buy in large volumes, so if marketers can convince these resellers to stock their organization's products, it can mean a significant uptick in sales. We'll learn more about retailers, wholesalers, and brokers in Distribution: Delivering Customer Value, when we talk about distribution, but some quick definitions may help here. Retailers are businesses that sell goods to consumers in relatively small quantities for personal consumption. Walmart and Target are two big retailers you're likely familiar with, but even the convenience store across from campus buys a variety of products, like candy, snacks, and soft drinks, from wholesalers to make them available for purchase—unaltered—by you. Wholesalers, on the other hand, typically purchase larger quantities from producers and then resell them to retailers. Brokers bring buyers and sellers together (for a commission, of course), and they may represent many producers of non-competing products.

Marketing in Practice: Alibaba

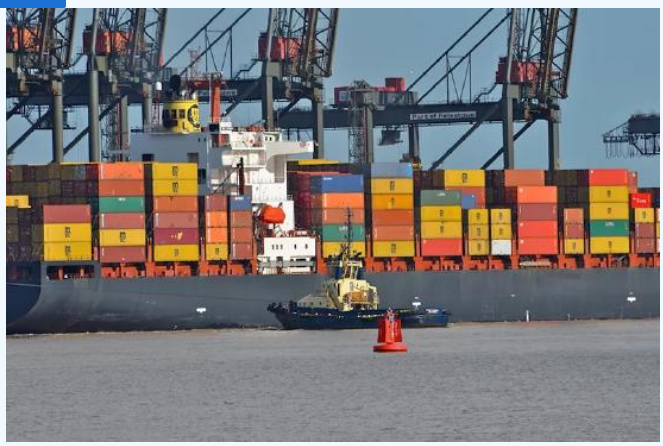


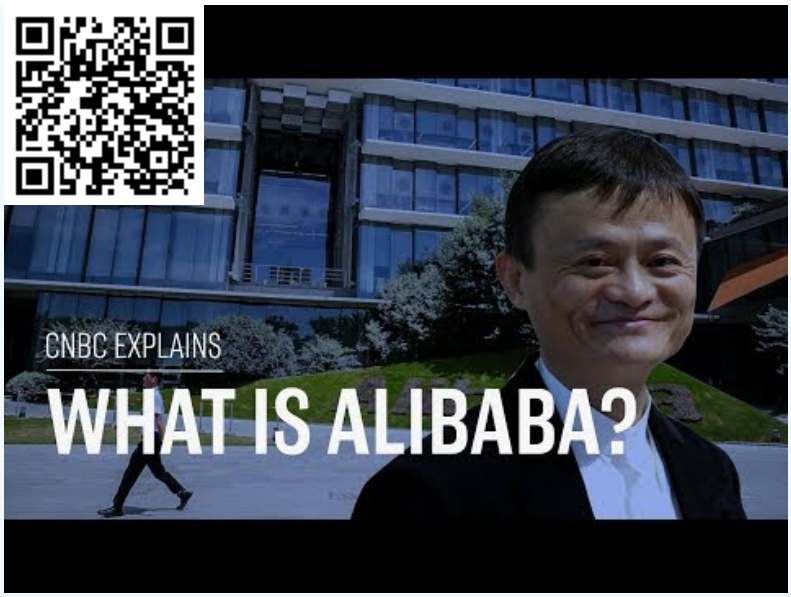
Figure 4.3 Alibaba.com, a leading platform for global wholesale trade, utilizes shipping containers to extend its reach to its millions of consumers and suppliers around the world. (credit: "Shotley Suffolk" by Martin Pettitt/flickr, CC BY 2.0)

Founded in 1999 by Jack Ma, Alibaba.com is an online B2B marketplace (see Figure 4.3). In this virtual marketplace, buyers and sellers have the ability to connect with one another and carry out purchase/sale transactions. Alibaba is sort of like a giant variety store for B2B buyers. The company has hundreds of millions of products in over 40 different categories, including machinery, consumer electronics, and apparel (Alibaba.com, 2020).

Alibaba's B2B marketplace has millions of sellers, similar to eBay in the B2C market. The sheer number of sellers translates to millions of products to choose from, so B2B buyers can easily select the sellers and products that best suit their needs.

Many of Alibaba's suppliers are businesses that sell raw materials or manufactured goods, and the B2B buyers of these goods are typically retailers, wholesalers, sourcing agents, or manufacturers who source products for reselling for their own businesses (see Figure 4.3). Alibaba.com even has "Pay Later" options (backed by Kabbage Funding) so that buyers can purchase inventory even if they don't have immediate funds available. This "Pay Later" option helps B2B buyers avoid more complicated financing options (Alibaba.com, 2020).

For more information about Alibaba.com, watch this CNBC video.



Trivia question for you: Who is the largest purchaser of goods and services in the world? If you answered the U.S. government, you'd be correct (United States Environmental Protection Agency, 2024). Government markets make up the largest single business and organizational market in the United States. The U.S. government buys everything you can imagine, from paper clips and staples to tanks, weapons, and jets. But it's not only products that governments purchase. They also enter into contracts with companies that provide services to citizens—everything from transportation to garbage collection and construction services.

You might be interested to know that there isn't one central department within the government that purchases all these products. Organizations that want to sell to the U.S. government must first register with the System for Award Management and then consult with the General Services Administration (GSA), the agency charged with assisting hundreds of federal agencies that procure a vast array of routinely purchased products such as office supplies, vehicles, and information technology services. However, the savvy marketer knows that agencies don't buy products; people do. The agencies the GSA works with still influence what is purchased, so the marketer knows to contact each agency the organization wants to do business with and market its products to them (University of Minnesota Libraries, 2022).

Institutions is a rather broad term for nonprofit organizations such as the Wounded Warrior Project and Ronald McDonald House Charities, charities, and churches, as well as educational institutions, hospitals, museums, nursing homes, and civic clubs. Like the government, these institutions often purchase large quantities of products and services. For example, a large nursing home buys food, beverages, linens, janitorial supplies, medications, and a host of other products and services to serve its residents. Similarly, a church may purchase candles, vestments, furniture, and much more.

A smart B2B marketer will carefully examine all of the markets mentioned above to determine if they represent significant potential opportunities, as well as look at pursuing B2B opportunities abroad and online B2B markets.

Major Types of Buying Situations in the B2B Market

As a consumer, you face different types of buying situations every day. Some purchases you make are almost automatic and require little forethought, such as when you stop for a cup of coffee on your way to work or class. Other buying decisions you make take more time and effort. The same is true in the B2B market. Buy classes refer to buying situations that are differentiated in terms of four characteristics: newness (i.e., how familiar or unfamiliar the product is to the B2B buyer), how many alternatives can/should be evaluated, how much uncertainty is involved in the buying situation, and how much information is required to make the buying decision (Universal Marketing Dictionary, 2024).

In the B2B market, there are four different types of buy classes (Figure 4.4).

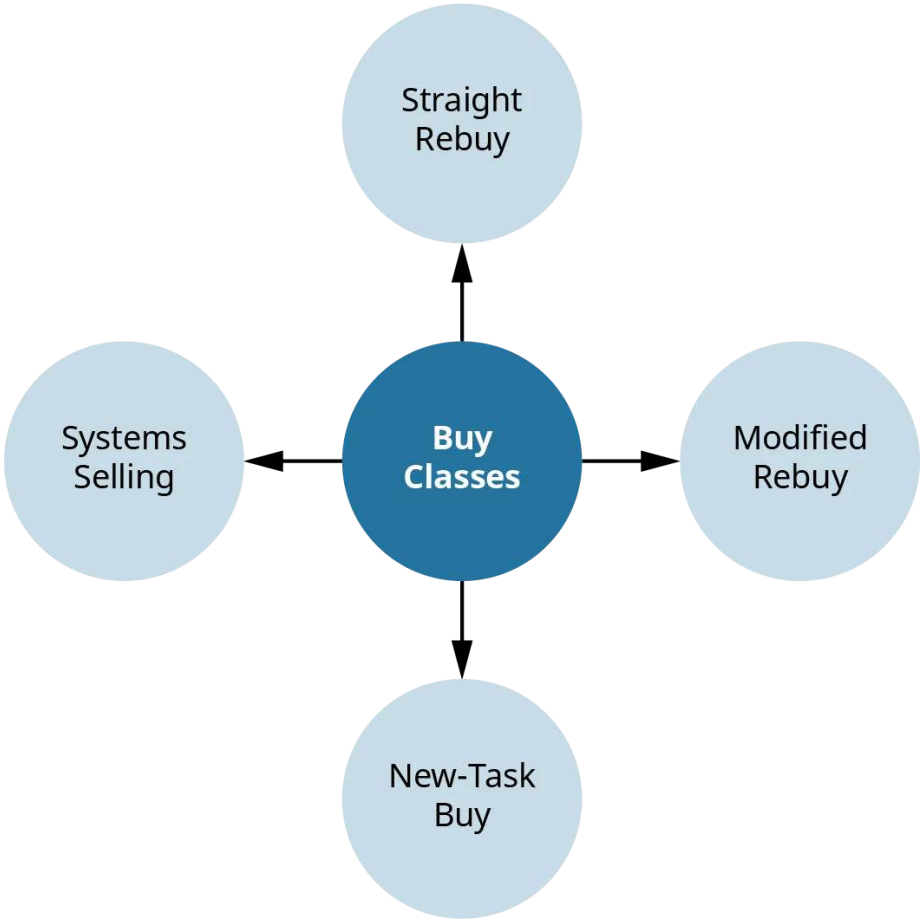


Figure 4.4 Types of Buy Classes in the B2B Market (CC BY 4.0; Rice University & OpenStax)

Straight rebuys are the simplest buying situation for a B2B buyer. With a straight rebuy, the B2B buyer is making a routine purchase of a standard product or products with no modifications from a familiar supplier. An example of a straight rebuy would be a B2B buyer who orders copier paper, pens, and pencils from Office Depot or another local office supplier. That buyer has likely purchased these (or similar) products before, so the effort involved in a straight rebuy is minimal beyond confirming that the order has been fulfilled.

In a modified rebuy situation, the B2B buyer is looking to purchase a similar product, but there are one or more significant differences from the previous purchase, such as new product specifications or a new supplier. Modified rebuy situations typically involve more effort from the B2B buyer than straight rebuys because they must consider product specifications, evaluate vendors, and negotiate new contracts. For example, let's consider a restaurateur who has changed the logo of the restaurant, necessitating buying new menus, coffee cups, and paper napkins. In essence, the same products are being purchased as before—menus, coffee cups, and napkins—but the logo has changed. This might be the time for the restaurateur to look at different suppliers who may offer better pricing or cups in different sizes and shapes to better display the new logo. A modified rebuy situation involves more effort than a straight rebuy situation because the restaurateur will likely need to research product specifications, evaluate vendors, and possibly negotiate new contracts.

The new-task buy occurs when a B2B buyer buys a product or service for the first time. These buying situations are among the most difficult and time-consuming ones because, typically, the B2B buyer has no previous experience with the product, the service, or perhaps the vendors. This means that, instead of relying on past purchase orders or product specifications, the B2B buyer has to start from scratch and do considerable research in terms of product specifications, find out which firms supply the product, and obtain information on the quality, pricing, delivery, and customer service of each of these vendors. For example, if Whirlpool designs a new microwave oven, the B2B buyer must source new vendors to design an electronic control panel for this microwave.

Systems selling (sometimes called a solution sale) involves buying a complete solution to a problem or need rather than purchasing separate components from different vendors. For example, a B2B buyer may choose to purchase an entire human resource management system from one supplier rather than purchasing applicant and/or employee management software from one vendor, payroll software from another vendor, compensation and benefits management software from still another vendor, etc. and putting them together (Monash University, 2024).

Participants in the B2B Purchase Process

Think about how you make buying decisions in your household. You're likely the only decision-maker involved in minor purchases, such as groceries or personal clothing. If you're buying a bigger-ticket item, such as a new car or a flat-screen TV, you may involve other members of your household in the decision. That's typically not the case in B2B buying. A buying organization's decision-making unit is called the buying center, sometimes called a decision-making unit. Buying centers comprise all the different people in the organization who have a stake in the B2B buying decision and have some degree of influence in the purchasing decision. The buying center can have one or more of the following roles, as shown in Figure 4.5.

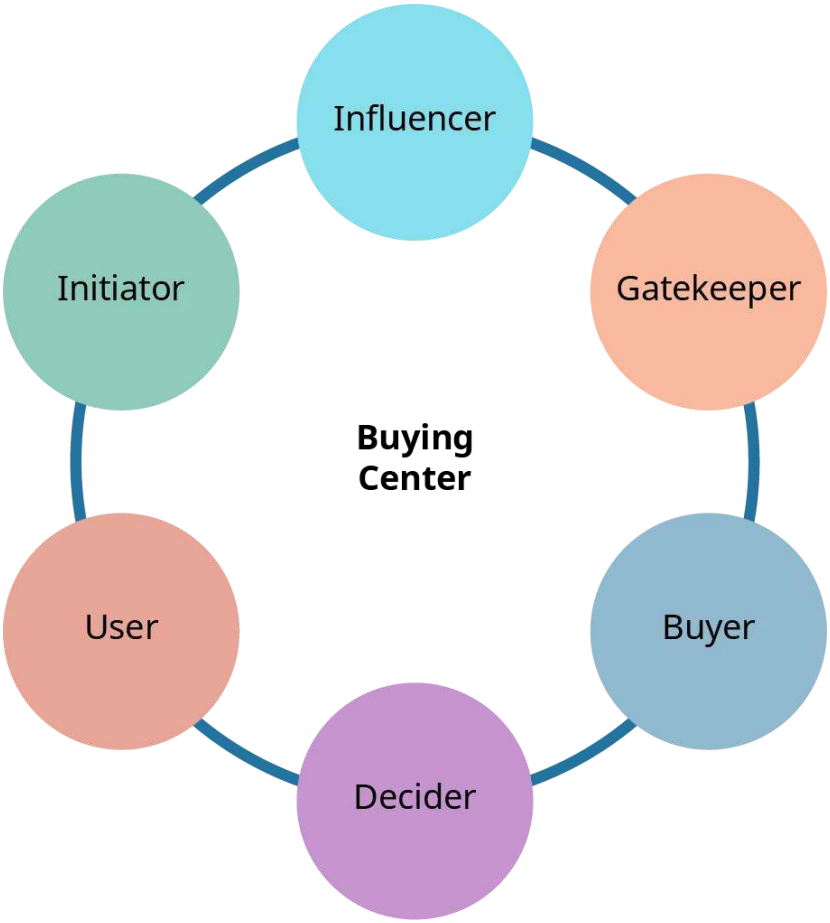


Figure 4.5 Individuals in the Buying Center (CC BY 4.0; Rice University & OpenStax)

The initiator is typically the individual who first identifies a purchasing need within the organization. Initiators are the people within the buying center who start (or initiate) the buying process. For example, a machine operator might initiate a request for a particular tool or piece of equipment, or the payroll department may initiate a request for new payroll software. At other times, the need may be identified by senior management or the engineering department.

Influencers are those within the organization who help define specifications and/or provide information to be used in the evaluation process. Simply put, these are the people in the organization who influence the buying situation and provide information for strategically evaluating alternatives (Chand, 2021). Influencers may not have a direct role in the purchasing decision, but they wield influence over the purchase. There are two categories of influencers. Business influencers typically focus on how the

purchase impacts revenue, whereas technical influencers will generally focus on how the purchase will impact business processes and operations.

Gatekeepers filter information. The gatekeeper is the person the marketer has to negotiate their way through to reach the decision-makers. Gatekeepers play a strategic role in the buying process because they have the ability to allow only information that is favorable to their opinion to flow to the decision-makers. For example, an executive assistant might have control of the decision-maker's appointment calendar and tell the marketer, "There are no openings on the calendar at this time."

Buyers have authority within the organization to select suppliers and negotiate and arrange the purchase terms. Buyers may also assist others within the organization to help shape product specifications, but their primary role is selecting vendors and negotiating the contract terms. They are also responsible for issuing purchase orders, following up, and keeping track of deliveries.

Careers In Marketing: Being a Buyer

Interested in learning more about what a buyer does on the job? Read this Indeed.com article about the roles, responsibilities, salary, and education of a buyer. The article also includes steps to become a buyer. Also, read this article from *The Princeton Review* on the life of a buyer.

Deciders are the critical link for a marketer in getting the order, particularly in major purchases. Within the organization, these people are authorized to select or approve the final suppliers. B2B buyers may be the deciders for routine purchases (i.e., straight rebuys), but decisions are often made higher up in the organization in more complex purchases.

Users are those people within the organization who will actually use the product or service. These users may or may not be the initiators of the purchase proposal. However, depending on how complex the purchase is, they may help define product specifications.

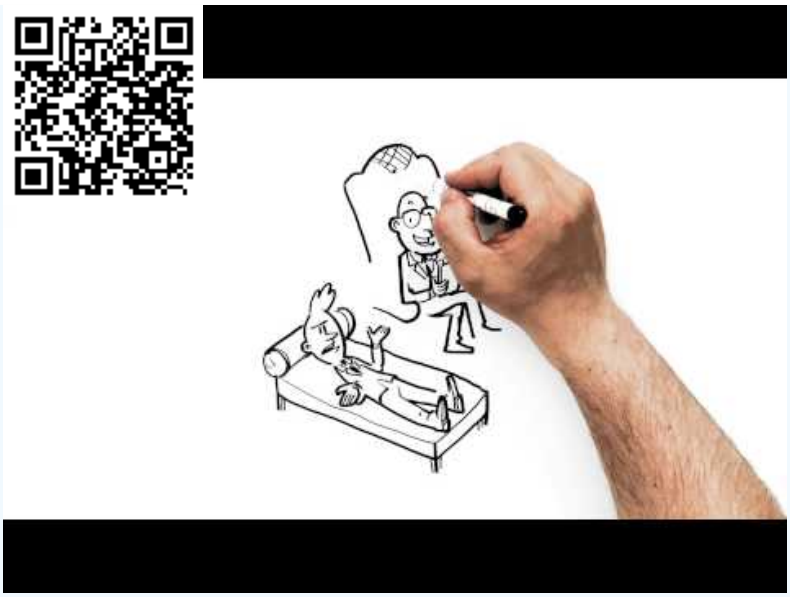
It's important to note that not all of these parties may be involved in every buying decision, depending on the nature of the purchase, and sometimes people in the buying center play more than one role. For example, consider a medium-sized law firm that needs a new copier. The initiator may be an administrative assistant (also a user) who complains to their boss, the managing partner, that the copier is too slow and lacks features like auto-duplexing and the capacity to enlarge and reduce the size of documents. As such, the administrative assistant also acts as a technical influencer because they know firsthand how a new copier with improved features would impact business processes. The managing partner in a law firm, who oversees the day-to-day operations, has the authority to direct the buyer to evaluate new copiers that would meet the specifications described by the administrative assistant and present an analysis of copiers. After evaluating the list the buyer has provided, the managing partner can make the final selection and thus act as the decider.

According to Tony Rutigliano and Brian Brim in their book *Strengths-Based Selling*, "The days of a single economic decision maker are over in most companies and industries. Even some small businesses make decisions in groups" (as quoted in Nink & Fleming, 2014).

For example, a study in Germany found that 86% of procurement decisions at large- and medium-sized companies are made by groups of 2 to 20 people. In companies of less than 100 employees, there were typically three people involved, whereas in companies of 1,000 or more, there were as many as 34 people involved (Nink & Fleming, 2014). This illustrates the importance of the marketer (or salesperson) understanding the set of roles in the buying center, identifying the role(s) each individual plays, and developing an execution strategy to make the sale.

Marketing in Practice: The Buyer Center

Watch this quick video of the buying center applied to a real-world example. It's a great way to gain insight into this process.



Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

The largest business and organizational market in the United States is _____.

a. producers
b. institutions
c. governments
d. resellers

2.

Jenae, a purchasing agent for an electronics firm, places an order with a local office supply company for several dozen reams of copy paper. He has ordered the same brand of paper from the company several times. This is an example of _____.

a. a straight rebuy
b. a modified rebuy
c. a new-task buy
d. systems selling

3.

Alejandro, the owner of a Mexican restaurant, decides to revise the restaurant's menu. He intends to use the same printing company but has to make several changes in the menu. What type of buying situation does this best illustrate?

a. Systems selling
b. Straight rebuy
c. Modified rebuy
d. New-task buy

4.

The human resources manager submits a request to upper management for a new software package to manage payroll, benefits, compliance, and information technology. Within the buying center, what role is illustrated by this scenario?

a. Influencer

b. Buyer
c. Initiator
d. Decider

5.

Metro Corp. wants to acquire a new IT system, and Aliyah has been charged with selecting potential new vendors. Within the buying center, what is Aliyah's role?

a. Gatekeeper
b. Influencer
c. Initiator
d. Buyer

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4.4: Major Influences on B2B Buyer Behavior

Learning Objectives

By the end of this section, you will be able to

- List and describe the external influences on B2B buyer behavior.
- Explain the internal factors that influence B2B buyer behavior.
- Examine the individual factors that impact B2B buyer behavior.
- List and describe the interpersonal factors that influence B2B buyer behavior.
- Explain the conditional factors that impact B2B buyer behavior.

Think about it: B2B buyers are people just like you. They don't make buying decisions in a vacuum; rather, they are influenced by many different factors throughout the B2B buying process, just as consumers are influenced in making purchases for their own consumption. These factors can be grouped into five major categories: external factors, internal factors, individual factors, interpersonal factors, and conditional factors (as shown in Figure 4.6). Let's take a closer look.

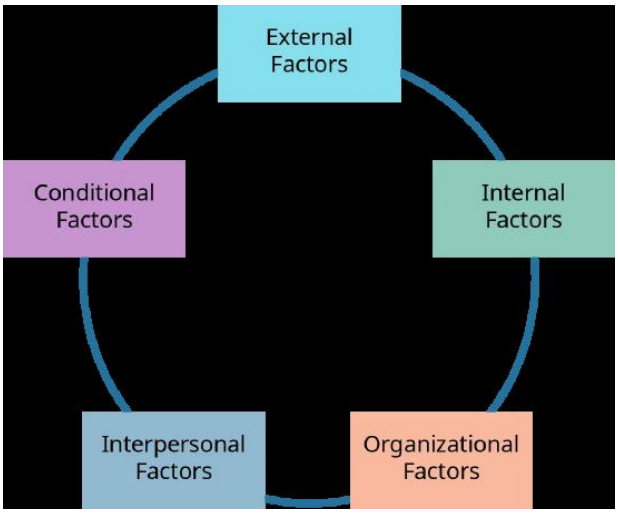


Figure 4.6 Influences on B2B Behavior (CC BY 4.0; Rice University & OpenStax)

External Factors

External factors at work in the B2B buying decision can be economic conditions, the political/legal environment, competition, and the social environment.

First consider economic factors, such as the level of primary demand, the economic outlook, and the cost of money (i.e., interest rates). When the economy is strong, when unemployment is low, and when personal income is up, B2C demand increases, driving upward demand in the B2B market. Conversely, during economic recession, B2B buyers look for ways to cut costs, and buying is significantly reduced.

Political and legal factors also influence B2B buying decisions. These factors include the political system, the political situation, and government policies. Legal factors include laws, rules, and regulations, including tariffs (taxes on imported goods) and exchange rates (the value of one country's currency versus another.) To give you an idea of how such legal factors can negatively impact a firm, consider that, in 2018, after an expert panel found possibilities of health risks, the Indian government banned approximately 6,000 brands of medicine, dealing a blow to both domestic and foreign pharmaceutical firms (Mint, 2022). It doesn't take much imagination to recognize the impact this policy had on these pharmaceutical firms.

Competition also affects B2B buying behavior. It stands to reason that, when a competitor changes its product offering and garners more market share, a business will want to respond by going on the defensive and changing its product offering, triggering one or more B2B buying situations. The fast-food industry is just one example of this. Wendy's was the first national fast-food chain to

introduce salads in response to consumers' desires for healthier food options (Leung, 2003). Shortly thereafter, many other competitors, including Arby's, McDonald's, Chick-fil-A, and Burger King, followed suit.

Finally, the social environment influences B2B buying behavior because each member of the class will likely approach the situation armed with different information, different perspectives, and perhaps different personal agendas. For example, the vice president of the marketing department may want to spend money on a new customer relationship management software package, whereas the vice president of the finance department may be more inclined to reserve capital and forego the purchase.

Internal Factors

Organizational factors are those factors internal to the organization that affect buying decisions. Every organization has certain business objectives and goals, and goods and services should be purchased according to these objectives. For example, if a company experiences a period of poor sales performance, management might slow down or halt major purchasing decisions until the financial performance of the company improves. Conversely, a company with a strong sales track record may push for more strategic purchases to gain or maintain a competitive edge.

Consider how an organization's technology influences B2B buying behavior, particularly if the purchases must be compatible with the technology that is already in place in the organization. When purchasing a new product or service, decision-makers are often reluctant to change the existing technology and go with something new.

Finally, workforce skills are as important as the decision-makers and the products or services themselves because the workers are the ones who will use the new equipment or service and (hopefully) make the most of it. Thus, new purchases must be compatible with the existing workforce skills, or employees must be offered training on the new technology.

Individual Factors

Just as with consumers, B2B buying decisions are influenced by the characteristics of the individuals in the buying center. Consider just one factor: age. In 2020, FINN Partners compiled its B2B Buyer's Influence Report and discovered several interesting statistics. Millennials (i.e., born between 1981 and 1995) were generally the most optimistic about purchase decisions. A whopping 83% were confident that they were paying a reasonable price, and 97% believed that the vendor would deliver as promised. This compares with only single digits for baby boomers (those born between 1946 and 1964) (Finn Partners, 2020).

The B2B buyer's education also plays a role. A more educated buyer is assumed to select goods and services carefully and approach the buying decision rationally, whereas a buyer with less education may decide to buy based on a hunch.

Job position typically conveys an individual's status within the organization. Those individuals involved in the buying decision who are higher up in the organization's hierarchy may have more influence than those with less formal authority within the organization.

Those involved in B2B buying decisions are, after all, human beings, so it stands to reason that personality will play a role. Personality refers to an individual's distinctive patterns of thinking, feeling, and behavior, all of which play a role in making buying decisions. Examples of the many personality traits of B2B buyers and consumers include self-confidence, aggression, and competitiveness. For example, some risk-averse individuals may prefer to do business with a known supplier rather than a vendor they are unfamiliar with. Likewise, personal preferences play a role in the B2B buying situation. Some individuals in the buying center may favor products of a certain quality, brand, price point, and so on.

Interpersonal Factors

Business buying decisions are typically collective and follow procedures established by the organization. The buying center usually consists of individuals with different formal or informal authority, status within the organization, and technical expertise.

If the buying situation involves a highly complex product or service, an individual with significant expertise will exert more influence in the buying decision. It's also important to note that some individuals in the buying center may have more influence than others, whether due to their position within the organization or their personal persuasiveness.

Finally, organizational politics and culture may also impact who the decision-makers are and the degree of power or influence they exert on the decision process. Companies with a strong hierarchical structure may foster a tendency for decisions to be made at a

higher level within the organization. This may be particularly true in international B2B transactions, which will be covered in more depth in Marketing in a Global Environment.

Conditional Factors

It stands to reason that the present financial condition of the organization will play a large role in the buying decision. If the organization is financially struggling and cash is in short supply, it may decide to make a purchase from suppliers who offer credit or may choose to purchase a less expensive product that is within its budget.

Likewise, availability of the product or service will play a significant role in the buying decision. An organization may choose to go with a supplier who can readily deliver the product or service within the time constraints of the project, even if the price is higher.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Garrett's company is considering whether or not to purchase new manufacturing equipment that will lower its manufacturing cost significantly and improve its profit margins. Which factor appears to be influencing the B2B purchase?

a. Workforce skills
b. Personality
c. Business objectives and goals
d. Social environment

2.

The local government has just passed an ordinance requiring manufacturing firms to reduce pollutants from their manufacturing processes. As a result, Shereace Manufacturing Company is investigating the purchase of pollution control equipment. What factor appears to be influencing the B2B purchase?

a. Political and legal factors
b. Economic factors
c. Competition
d. Workforce skills

3.

Shane's company has been experiencing a downturn in sales, and cash is tight right now. This has caused Shane to look only at suppliers who offer credit to the company. Which factor appears to be influencing the B2B purchase?

a. External factors
b. Internal factors
c. Interpersonal factors
d. Conditional factors

4.

Interest rates have gone up significantly in the past few months, prompting Johnson Manufacturing to reconsider purchasing a new building. Which factor appears to be at play in this B2B transaction?

a. Political and legal factors
b. Economic factors
c. Workforce skills
d. Competition

5.

A worldwide shortage of microchips has prompted Vorderman Enterprises to use a new vendor that has higher prices but can deliver the product on time. Which factor appears to be at play in this B2B transaction?

a. External factors
b. Political and legal factors
c. Economic factors
d. Conditional factors

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4.5: Stages in the B2B Buying Process

Learning Objectives

By the end of this section, you will be able to:

- Explain and describe the stages in the B2B buying process.

The B2B Buying Process

The B2B buying process—the journey B2B buyers and the buying center take to complete a purchase—is significantly different and more complex than the consumer purchasing decision process. You'll recall from Consumer Markets and Purchasing Behavior. That the consumer buying decision encompasses five stages—need recognition or problem awareness, information search, evaluation of alternatives, purchase decision, and post-purchase evaluation. By contrast, the B2B process involves eight stages (shown in Figure 4.7). Let's take a closer look at each of these stages.

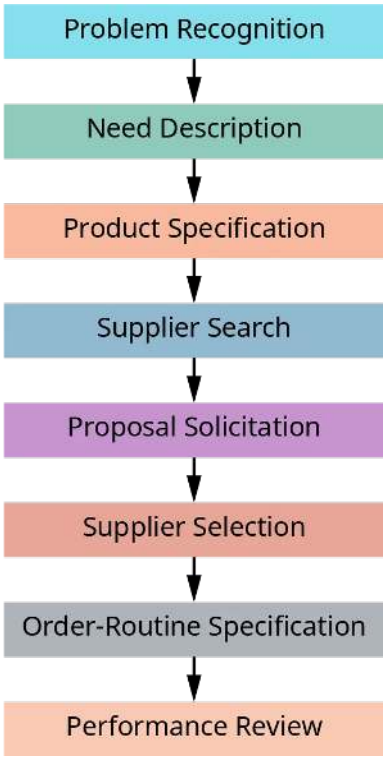


Figure 4.7 The Stages of the B2B Buying Process (CC BY 4.0; Rice University & OpenStax)

Stage 1: Problem Recognition

Similar to the consumer purchasing decision process, the first stage in the B2B buying decision process begins when someone within the organization identifies a problem or a need that can be resolved through a purchase. For straight rebuy purchases, this stage may be as simple as the fact that the organization is running low on copier paper or toner. In a case like this, the B2B buyer simply places the order, and the process ends.

Modified rebuy purchases make the process more complex, as these may involve replacing outdated equipment, technological changes, or revising marketing brochures or advertisements. Now, instead of placing an order from an existing supplier for an already-purchased product, the B2B buyer has to follow through on more of the stages in the process.

New-task buying is the most complex. For example, your organization may decide that, due to the growth of the organization, it needs to purchase an accounting software system or a new piece of manufacturing equipment. In these cases, the B2B buying process will likely incorporate all of the steps listed in Figure 4.7.

Stage 2: Need Description

Next, the buying center will need to further define what needs to be purchased. This often involves collaboration among members of the buying center in terms of describing what is needed from a technical perspective, desired features, quantity, etc.

Consider a firm that is developing a new electronic control for an appliance. The components are many—a printed circuit board, capacitors, resistors, microprocessors, etc. Members of the buying center will be called upon to develop a bill of materials—a list of parts, items, assemblies, subassemblies, documents, drawings, and other materials required to create the control. Think of the bill of materials as the "recipe" used to create the finished product.

Stage 3: Product Specification

B2B buyers often develop product specifications, a blueprint that outlines the product to be built, how it will look, what features it will have, and how it will function. The product specification needs to be concise and readable for everyone in the buying center and yet contain sufficient technical data to provide the product team with the information it needs to develop the new product or feature.

Stage 4: Supplier Search

Now that you've established the technical specifications for the product, it's time to identify potential suppliers. This is where the experience of those in the buying center comes into play, as they attempt to determine which suppliers have the best quality, delivery, and price. Just like consumers in the "information search" stage of the consumer buying process, those in the buying center may look online to find suppliers, but there are many other resources available to B2B buyers, such as trade magazines, industry expert blogs, and webinars conducted by suppliers.

Stage 5: Proposal Solicitation

Once the list of potential vendors has been developed and whittled down, qualified vendors will be asked to submit proposals. If it's a relatively straightforward purchase, this proposal may be as easy as a vendor sending the buyer a catalog or providing the buyer with a link to the company's website. However, more complex purchases typically require the vendor to submit a detailed proposal outlining what the vendor can do to address the company's needs. This proposal will likely contain product specifications, timing, and—of course—pricing.

Stage 6: Supplier Selection

After reviewing the proposals from the various vendors, the buying center makes a choice. This stage in the B2B buying process involves a thorough review of the proposals submitted, with a critical eye tuned to factors such as supplier capabilities, reputation, warranties, price, etc. If the purchase requires a substantial financial outlay and/or is extremely complex, or if many proposals were solicited, the buying center may narrow down the list of vendors to just a few and invite them to meet (either in person or virtually) to further discuss the proposal and address any questions or concerns.

Stage 7: Order-Routine Specification

After selecting suppliers, the B2B buyer negotiates the details of the order. The critical items here are what is needed (i.e., the technical specifications), how much is needed (i.e., the quantity required), and when it is needed (i.e., the expected time of delivery). This stage will likely also include negotiation of things such as return policies, warranties, and other critical items involved with the purchase.

Stage 8: Performance Review

Just as consumers evaluate purchases after they have made them, and similar to the way that your employer may conduct a performance review to assess your job performance, the B2B buyer periodically reviews the performance of the selected supplier to assess if the product and the supplier meet expectations. For example, the B2B buyer may solicit product feedback from users and/or rate the supplier on different criteria such as quality, promptness of delivery, etc. As a result of the performance review, the B2B buyer may decide to continue, modify, or even end a supplier relationship.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

A blueprint that outlines the product the company will be building, what it is going to look like, and its specific requirements and functions is known as a _____.

a. project scope
b. bill of materials
c. product specification
d. participant matrix

2.

Jackson has asked several qualified vendors to submit proposals. Which stage of the B2B buying process does this illustrate?

a. Stage 2: Need description
b. Stage 3: Product specification
c. Stage 4: Supplier search
d. Stage 5: Proposal solicitation

3.

During which stage of the B2B buying process will members of the buying center be called upon to develop a bill of materials?

a. Stage 1: Problem recognition
b. Stage 2: Need description
c. Stage 3: Product specification
d. Stage 4: Supplier search

4.

During which stage of the B2B buying process will the B2B buyer negotiate the order?

a. Stage 4: Supplier search
b. Stage 5: Proposal solicitation
c. Stage 6: Supplier selection
d. Stage 7: Order-routine specification

5.

Donita has determined that the current payroll software system is no longer adequate to handle the growing number of employees in the company. Which stage of the B2B buying process does this illustrate?

a. Stage 1: Problem recognition
b. Stage 2: Need description
c. Stage 5: Proposal solicitation
d. Stage 8: Performance review

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4.6: Ethical Issues in B2B Marketing

Learning Objectives

By the end of this section, you will be able to

- Discuss ethical issues pertaining to B2B marketing.
- Explain the Foreign Corrupt Practices Act.
- Provide an example of a company that displays ethics in B2B marketing.

Business Culture and Industry Practices

As we've seen above, there are several differences between B2C and B2B marketing. Consider purchasing, for example. Unlike B2C transactions, it is far more common in B2B transactions for vendors to offer "perks" such as free dinners, golf outings, and trips. In some foreign countries, B2B and government buyers not only expect these types of "perks" but also may demand bribes if you want to do business with them on their turf. This presents unique ethical challenges for B2B sellers and buyers. As a B2B seller, of course you want to make the sale, particularly if it's a large sale. On the other hand, you know that a reputation for ethical behavior, including honesty, transparency, and open communication, is critical to the success of your business and may even be the decisive factor in a B2B buyer's decision to buy from you instead of a competitor.

Bribes and "Grease Payments"

Transparency International, a watchdog group, annually ranks the likelihood of companies from the world's industrialized countries to bribe abroad. The index ranks 180 countries and territories by their perceived levels of public sector corruption on a scale of 1 to 100, in which 100 is perceived to be very clean, and zero is perceived to be highly corrupt (Transparency International, 2022).

Which countries ranked in the bottom five for 2021? Let's take a look. From Transparency International (2022):

- South Sudan
- Syria
- Somalia
- Venezuela
- Yemen

If you're curious, the United States ranked 25th in the world. And the least corrupt countries in 2021? That would be Denmark, Finland, and New Zealand, which tied for first place (Transparency International, 2022).

Link to Learning: Fighting Corruption

For more information about Transparency International, including corruption wins, scandals, and predictions, check out this corruption perceptions index. You may also enjoy this TEDx Talks video about the power of corruption.



Let's consider how you would handle a scenario involving bribes. You're the plant manager in Taiwan for a US-based electronics company. You are expecting a critical shipment of diodes that are being imported into Taiwan from South Vietnam. Without the diodes, you will miss an important production deadline for a new—and potentially lucrative—customer. The shipment arrives in the Port of Taipei on a timely basis, but customs refuses to release the shipment, claiming that it needs to do further inspection, and it may be several days or even a couple of weeks before the shipment is released. However, a customs agent advises you that in exchange for a "facilitation fee" of several hundred dollars, the process can be expedited. How do you handle this? Do you pay the "facilitation fee" (essentially a bribe, which is illegal according to the Foreign Corrupt Practices Act, covered below) and meet your customer's deadline, or do you refuse to pay the fee and miss your customer's deadline? How will missing that deadline impact your firm's relationship with the new customer?

Let's consider how you would handle still another similar scenario. You're the regional distribution manager for a U.S. company, and you've been assigned to head up a new distribution facility in a South American country. At least two other competitors (both foreign corporations) are also trying to enter the same market, so you've been instructed to establish this facility as quickly as possible to beat the competition. However, government officials have advised you that it may take up to 10 months to obtain a building permit but that the time frame could be considerably shortened in exchange for the payment of an "expediting fee." These fees (essentially a bribe) are both illegal according to U.S. law. However, your competitors are foreign firms that are not subject to U.S. law, and paying such fees is neither illegal nor considered unethical. How will you handle this situation? Will you pay the fees to be first in the market, or will you let your competitors beat you to the market?

These are a couple of dilemmas faced by marketers in B2B situations.

Link to Learning: Corruption Scandals

Check out Transparency International's list of top corruption scandals. Interesting read!

Price Fixing

Price fixing—an agreement among competitors (either written, verbal, or inferred from the parties' conduct) that affects prices or competitive terms—is prohibited by the Federal Trade Commission (FTC) (United States of America Government, 2022). Remember that, despite the term, price fixing isn't confined to an agreement to set the same price. Companies can also be involved in price fixing if they offer or withhold the same discounts or shipping terms or set a production amount or quota.

Price fixing is illegal because it's considered anti-competitive and hurts both consumers and businesses. Let's illustrate with a real-life example of a company you're likely familiar with—StarKist. In 2019, a San Francisco federal judge ordered the company to pay a fine in the amount of $100 million in connection with a canned tuna price-fixing conspiracy that involved StarKist, Bumble Bee Foods, and Chicken of the Sea, who regularly exchanged information about their sales and plans for pricing. The lawsuit

alleged that, under the scheme, consumers were forced to pay more for canned tuna than they would have otherwise (The Associated Press, 2019).

Link to Learning: Tuna Price-Fixing Lawsuit

Learn more about the details of the price-fixing lawsuit from this short video on the Ring of Fire channel.



The Foreign Corrupt Practices Act

The Foreign Corrupt Practices Act (FCPA) was enacted in 1977. Its purpose is to prohibit the payment of bribes (sometimes called "facilitation fees") to foreign officials to obtain or retain business. The FCPA applies to prohibited conduct anywhere in the world and extends to publicly traded companies and their officers, directors, employees, stockholders, and agents (U.S. Securities and Exchange Commission, 2024).

The Securities and Exchange Commission (SEC) and the Department of Justice work cooperatively to enforce the FCPA. Sanctions for violations can be significant, including both civil and criminal penalties. The SEC can bring civil enforcement actions against companies (along with their officers, directors, employees, stockholders, and agents) for violations or bribery. If found guilty under the act, the company may have to pay back its "ill-gotten gains" and pay prejudgment interest and civil penalties. For example, one of its most recent cases involved KT Corporation, a South Korean telecommunications company, in which the SEC alleged that the company had violated the books and records and internal accounting controls provisions of the FCPA by making improper payments to government officials in Korea and Vietnam (U.S. Securities and Exchange Commission, 2024).

Companies with a Conscience: Kforce



Figure 4.8 Giving to the community continues to grow as a priority for many companies, so they continually collaborate to develop ideas and initiatives within their mission statements or business plans. (credit: “Design a Better Business Masterclass @ Zoku Amsterdam, October 2017” by Sebastiaan ter Burg/flickr, CC BY 2.0)

Kforce is a B2B professional staffing and solutions firm specializing in technology, finance, and accounting. Headquartered in Tampa, Florida, the company has over 50 offices nationwide and two national recruiting centers (Kforce, 2022a).

The location of its corporate headquarters played a big role when Hurricane Irma struck South Florida and the Bahamas in 2017 because the company felt the impact on a personal level. The hurricane, which struck Florida as a Category 4 storm, ripped off roofs, flooded coastal cities, and knocked out power for more than 6.8 million people (Huber, 2018).

Instead of idly standing by or focusing solely on getting its business back up and running, Kforce decided to “make lemonade out of lemons” and positively impact the community (see Figure 4.8). The company raised $1 million for the American Red Cross and sponsored private jet missions that flew essential supplies to the Bahamas. It also encouraged users to make donations for hurricane relief, generating several thousand additional dollars for the cause (Anderson, 2019).

But Kforce’s philanthropy after Hurricane Irma wasn’t a one-time deal. In 2021, the company expanded its “Day of Giving” campaign to a “Season of Impact” and encouraged employees to give their time and talents to nonprofit organizations of their choice. It also held several events such as a food drive and the Tampa Bay Heart Walk to benefit the American Heart Association (Kforce, 2022b).

KForce does a lot for the community. Check out its website to learn more about its corporate social responsibility programs.

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4.7: Chapter Summary

In this chapter, we defined business-to-business (B2B) markets and buying behavior and explored the differences between business-to-consumer (B2C) and B2B markets. We discussed the types of buyers in B2B transactions—producers, resellers, governments, and institutions—and identified the different types of buy classes in the B2B market, as well as the roles of those in the buying center—the people within the organization who have varying influence on the purchase decision.

We examined the five major categories of influencing factors on B2B decisions: external factors, internal factors, organizational factors, interpersonal factors, and conditional factors. We also reviewed the eight stages of the B2B buying process: problem recognition, need description, product specification, supplier search, proposal solicitation, supplier selection, order-routine specification, and performance review. Finally, we explored some ethical issues with respect to the B2B buying process, including Transparency International's Corruption Perceptions Index and the Foreign Corrupt Practices Act (FCPA).

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4.8: Key Terms

authority | the right to give orders, supervise the work of others, and make certain decisions

B2B buying process | encompasses 8 stages: problem recognition, need description, product specification, supplier search, proposal selection, supplier selection, order-routine specification, performance review

bill of materials | a comprehensive inventory of the raw materials, assemblies, subassemblies, parts, and components

brokers | individuals or businesses that bring buyers and sellers together, usually for a commission

business objectives and goals | achievable outcomes that provide a framework for achieving success

business-to-business (B2B) | a transaction or business conducted between one business and another

buy classes | buying situations that are distinguished on four characteristics: newness to decision makers, number of alternatives to be considered, uncertainty inherent in the buying situation, and the amount of information needed for making a buying decision

buyers | the people in the buying center who handle the paperwork of the actual purchase

buying center | groups of people within organizations who make purchasing decisions

competition | the rivalry between companies selling similar products and services with the goal of achieving revenue, profit and market share growth

deciders | the people in the buying center who ultimately determine any part of the entire buying decision

derived demand | market demand for a good or service that results from a demand for a related good or service

direct demand | the demand for a commodity for direct consumption purposes

economic factors | factors that affect the economy, such as interest rates, tax rates, laws, policies, wages, and government actions

expertise | expert skill or knowledge in a particular field

Foreign Corrupt Practices Act (FCPA) | a US statute that prohibits firms and individuals from paying bribes to foreign officials

gatekeepers | individuals in the buying center who control information and/or access to decision makers and influencers

government markets | purchases made by the governing bodies of nations, states, or communities

influence | the capacity to have an effect on the character, development, or behavior of someone or something

influencers | individuals whose views influence other members of the buying center in making the final decision

initiator | the person in the buying center who first suggests or thinks of the idea of buying the product or service

institutions | organizations, establishments, foundations, societies, or the like devoted to the promotion of a particular cause or program, especially one of a public, educational, or charitable character

modified rebuy | a buying situation in which an individual or organization buys goods that have been purchased previously but changes either the supplier or some element of the previous order

new-task buy | a complex B2B buying situation in which the organization buys a product or service for the first time

personality | the combination of characteristics or qualities that form an individual's distinctive character

political and legal factors | factors such as the political system, the political situation, and government policies that influence B2B buying decisions

producers | those individuals or businesses who buy raw goods to use in the creation of goods or services

product specifications | a document carrying essential information to keep teams on track when designing and developing a product

resellers | companies or individuals (merchants) that purchase goods or services with the intention of selling, leasing, or renting rather than consuming or using them

retailers | businesses that sell goods to consumers in relatively small quantities for personal consumption

social environment | the values, attitudes, beliefs, wants, and desires of the consuming public

straight rebuys | purchases in which the business customer buys the same goods from the same supplier in the same quantity at the same terms and requires minimal decision making

systems selling | selling a complete solution to a problem or need rather than one or more of the component parts

technology | applications of science, data, engineering, and information for business purposes

users | the people who consume or use the product or service

wholesalers | businesses that typically purchase larger quantities from producers and then resell them to retailers

workforce skills | also called employability skills, the basic skills a person must have to succeed in any workplace

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4.9: Applied Marketing Knowledge- Discussion Questions

1. Go to the Tesla corporate website. Which market(s)—consumer, business, institutional, resellers, producers/suppliers—does Tesla serve? Why did Tesla decide to serve these markets? When reading Tesla's 2021 Impact Report, what main goal does the company say it is "driven" by?
2. Manufacturers work with resellers primarily to move large amounts of inventory quickly, thus limiting stagnant inventory that can limit cash flow. Historically, which two types of businesses have contributed to moving manufacturers' products to end consumers?
3. Visit your college's website and look through academics, sports, organizations, and campus life. When looking at the photos, which items do you see depicted that are likely straight rebuys? Do you see sports uniforms, test tubes, musical instruments, computers, desks, library books? Which items are likely modified rebuys, new task situations, and systems selling?
4. What segmentation tools do you have at your disposal when marketing in a B2B setting? Are there challenges associated with using social media platforms in marketing to other businesses rather than individual consumers? If so, one of these challenges might be that members of the buying center are more experienced and less emotional purchasers. Can you identify additional challenges?
5. City, county, state, and federal governments are heavily engaged in the B2B market. List one product each governmental entity might purchase directly from a producer/supplier.

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4.10: Critical Thinking Exercises

1. Compose a paragraph of 250–500 words using all the terms below in the bullet points as they relate to B2B. The goal is to prove you understand the meaning of each term.
2. Explain the Foreign Corrupt Practices Act and why it is important as US businesses compete in the international marketplace.
3. Tesla is building a 10 million-square-foot “Gigafactory” in Nevada. While Tesla didn’t rely on systems selling in building the manufacturing facility, the company did contract with many suppliers, such as Anning-Johnson, to provide vital elements such as decking. For Tesla, this was a new task situation. List the various phases Tesla underwent to arrive at the construction and operation of the lithium-ion battery Gigafactory.

Table of Various Phases for Construction

business markets	institutions	business culture
competitors	internal factors	gatekeeper
deciders	problem recognition	buying center
economic factors	personal selling	derived demand
product specifications	reseller	performance review

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4.11: Building Your Personal Brand

Your personal brand comprises the skills and talents you bring to future employers or your own business. Think about how businesses market to other businesses. How can you adopt some of those same marketing techniques and develop a plan to market yourself for an internship or employment?

Visit LinkedIn and look at the profiles of a handful of marketing managers. Examine how each marketing manager depicts their brand within their profile. What do they say about themselves that's unique?

Now, write a one-page summary of your brand.

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4.12: What Do Marketers Do?

Utilize LinkedIn to find brand managers in your geographic area and invite one or more to connect with you. It's best to go beyond the suggested LinkedIn request message and be more inviting and clearer on why you are reaching out to them. Once linked, "interview" the professional by asking questions. A few questions to begin with might be: Was there a particular class in college that resonated with you and your career goals? How did you find your first internship? Do you have suggestions that can help me improve my LinkedIn profile? Additional questions may explore their education, their experience, their career goals, and how they spend their days and weeks.

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4.13: Closing Company Case

Corporate Medical Services

Corporate Medical Services (CMS) was established in Tennessee on October 1, 1995, with one person, one computer, and one client (Corporate Medical Services, 2024). The company was started to provide Department of Transportation (DOT) customers with a resource to meet new drug testing requirements.

“The Federal Motor Carrier Safety Administration (FMCSA), along with the Department of Transportation (DOT), requires that persons subject to the commercial driver’s license (CDL) requirements and their employers follow alcohol and drug testing rules" (Corporate Medical Services, 2022). These rules include procedures for testing, frequency of tests, and substances tested for. An employer who employs only themselves as a driver shall implement a random alcohol and controlled substances testing program of two or more covered employees in the random testing selection pool.

With a combination of technology and great customer service, the company grew steadily, provided by the Federal Motor Carrier Safety Administration (2024):

- 1995: CMS founded
- 1996: First office location established
- 1998: Nationwide 24/7 services offered
- 2001: Automated faxing of results
- 2001: New office location established due to company growth
- 2004: Automated emailing of results
- 2008: Created in-house DotStop[i] consortium program
- 2009: Online results reporting made available
- 2010: Online scheduling of services made available
- 2012: Began providing management services for existing consortiums
- 2013: Introduced CMS’s Sleep Express
- 2016: Began developing programs to automate DMV updates

Today, CMS provides services to a wide variety of clients and industries across the United States and Canada. Clients include trucking, busing, firework manufacturers, schools, construction, hospital organizations, other third-party administrators, consortiums, and associations. In 2020, CMS reported over 100,000 drug screens and additional services for more than 2,500 companies (Corporate Medical Services, 2024).

With stricter requirements coming to the industry, there is a tremendous need for drug and alcohol testing. Data reveals that there are 3.5 million truck drivers in the United States (Smiljanic, 2022). For just the trucking industry alone, the need for consortium services as well as company-sponsored drug and alcohol testing is increasing every year.

CMS prides itself on being the most recognized concierge service provider in the industry. Figure 4.9 is a competitive analysis grid, and it outlines how CMS compares with its competitors based on the number of services it offers and the level of customer service provided. For example, DISA Global Solutions (DISA), Workforce QA, and FSS Solutions (FSS) are companies that provide a higher number of services than CMS but much lower customer service. CMS offers fewer services but the highest level of customer service. Notice that as companies offer more services, their level of customer service decreases.

Marketers use competitive analysis grids to understand how they compare with their competitors on the various important metrics in their industry. It is important for a company to grasp both its points of parity and its points of differentiation compared to competitors.

]Figure 4.9 Competitive Landscape (credit: reproduced with permission of Corporate Medical Services [CMS])

In choosing to differentiate their company based on service, CMS promised customers an unrivaled experience when they needed drug or alcohol testing. Many times, the need for testing was the result of an emergency. Companies that relied on CMS for this service felt a level of comfort knowing they would be taken care of quickly and efficiently when they were in the most need.

Among the promises, CMS vowed the following:

1. Unrivaled Experience

“CMS has been helping companies manage the complexities of regulations and requirements for over 25 years. During that time, we have helped over 15,000 companies significantly reduce the hassle of managing their drug testing programs.”

2. Concierge Level Personal Service

“Concierge-level service is not a term frequently used in our industry, but we believe in it and actively demonstrate it to our clients daily. When you are miles from home and need support, it’s what you want. It is always a good day at CMS, and we hope to make your day better by helping you in any way we can.”

3. More Security, Less Hassle

“Dealing with governmental regulations and requirements is no easy task. We have developed processes, procedures, and performance benchmarks to deal with the complexity of this industry so that you don’t have to. At the end of the day, you will be confident that your program is operating the way it should.”

4. Respect

“We are here to serve our clients. To successfully accomplish that goal, we treat our staff, our clients, our vendors, and your donors with respect. In an industry where conversations can sometimes get tense, we handle every situation in a respectful and professional manner in order to mitigate any issues that may arise.”

5. Speed of Technology

“Our systems and processes are designed to get you the results you need as quickly as possible, which is why no one is faster at reporting drug screens. Our system averages a 7-minute turnaround on negative reports, once released from the lab.”

As CMS looked for growth, it began to work with industry trade associations. The trucking industry was growing rapidly. Industry leaders were continuing to expand their fleets, and new trucking companies were entering the market. Providing drug and alcohol testing was not something the companies wanted to think about—until it was a necessity. Corporate safety managers could be difficult to reach; however, with a narrow focus and significant industry knowledge, CMS was well positioned to network and provide critical information regarding the ever-changing government regulations.

CMS knew it needed to begin developing brand awareness and continue fostering relationships in the industry. When it was time to make the buying decision, CMS wanted to be in the top-of-mind consideration set. The company knew the buying cycle may be long for a corporate decision to change which provider they were using for testing. It was a process it was willing to wait for, and it was in it for the long haul.

Case Questions

1. Which characteristics of the B2B market are most evident for CMS?
2. If a trucking company wanted to buy services from CMS, what type of buying behavior would this be?
3. List and describe the major B2B buying influences prevalent for the CMS market segment.
4. List three ways Corporate Medical Services can become a leading contender in the supplier search stage of the B2B buying process.

Footnotes

- iDotStop is the brand name of a drug and alcohol testing consortium for trucking companies with 20 or fewer drivers.

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CHAPTER OVERVIEW

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5.1: In the Spotlight

To begin this chapter, we are going to look at an example of a well-known company that successfully used market segmentation to appeal to a very specific consumer market as a way to revive one of its products.

Mattel Inc. is the producer of popular children's toys like Hot Wheels, Barbie, and Max Steel. Its action figure Max Steel was introduced in 1999 to only modest success in the United States, but it was enormously popular in South America, even outselling the company's top lines—Hot Wheels and Barbie. Nearly a decade later, marketers decided to revive the brand in the United States, hoping for a second chance at success (Schmidt, 2013).



Figure 5.1 Market segmentation allows companies to focus their resources on their target markets—where their marketing messages will best resonate. (credit: "3D Bullseye" by ccPixs.com/flickr, CC BY 3.0)

Mattel used a number of important market segmentation variables and market strategies to appeal to its target market. First, in terms of demographic variables, marketers recognized that the Max Steel figure typically appealed to boys (gender segmentation) between the ages of 6 and 11 (age segmentation), so they decided to focus on this segment by developing a website that included games, character biographies, and other features popular with boys in this age bracket.

Market research also revealed that its target audience was interested in superheroes and enjoyed watching videos and playing video games centered around these superheroes, so the company used psychographic and lifestyle segmentation to appeal to this segment (Chianese, 2018). For example, Mattel created a Disney Channel cartoon for Max Steel so that, months before the product relaunch in the United States, its target market was already familiar with the character and was more likely to buy (or pressure their parents to buy) the action figure. The result? Max Steel has become a minor superhero "staple" in toy aisles, cartoons, and movies.

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5.2: Market Segmentation and Consumer Markets

Learning Objectives

By the end of this section, you will be able to

- Define market segmentation.
- Describe the benefits of market segmentation.
- Discuss methods of segmenting consumer markets.

Market Segmentation Defined

You may have heard the saying "You can't be all things to all people." That sums up the essence and purpose of market segmentation—the process of dividing a target market into smaller, more precisely defined groups of consumers or organizations who have common needs and are expected to respond similarly to a marketing action.

The Advantages of Market Segmentation to the Organization

The average person is estimated to see an astounding 4,000–10,000 advertising messages each day.[3] That's why it's critical to target the right market. Most marketers have limited advertising budgets, so using one marketing message to reach a broad audience may garner a few new customers, but it's likely to come at a high advertising cost.

Consider a company that makes woodworking tools for the professional or home hobbyist. The company would waste a lot of money placing ads in "general interest" magazines like *Reader's Digest* because the average reader likely has little interest in woodworking tools. A better bet would be placing ads in specialty magazines like *The Family Handyman* (published by the same company as *Reader's Digest*), *Wood Magazine*, or *Popular Woodworking*— publications aimed at professional woodworkers and hobbyists. Not only would it likely cost less to advertise in specialty magazines like these, but the ads would be more relevant to the company's desired customer base.

There are other benefits to market segmentation. Let's look at a few:

- **Improved Focus on the "Important" Customers.** Customers are not all alike. Some will love your product or service, while others will be indifferent. Instead of trying to appeal to everyone, market segmentation enables marketers to focus their efforts and resources on those customers, which will likely result in revenue for the company.
- **Improved Product Development.** Market segmentation allows marketers to better understand what consumers want in a product or service, and that knowledge enables the marketer to make recommendations for refinements to existing products and services to meet those needs. This knowledge is equally important in terms of designing *new* products and services to meet the needs of the target market.
- **Improved Brand Loyalty.** When customers feel that your company's products or services are a good fit for them, they are more likely to stick with your brand and recommend it to others (Kadence International, 2024).

Methods of Segmenting Consumer Markets

There are several different types of marketing segments you can create. We'll focus on four major types:

- Geographic segmentation: the "where"
- Demographic segmentation: the "who"
- Behavioral segmentation: the "how"
- Psychographic segmentation: the "why"

Geographic Segmentation: The "Where"

Let's first look at geographic segmentation, or dividing the market based on where your customers or potential customers live. There are several geographic parameters a marketer can use to focus their marketing efforts, including location, cultural preferences, climate, language, and population type and density (see Figure 5.2).

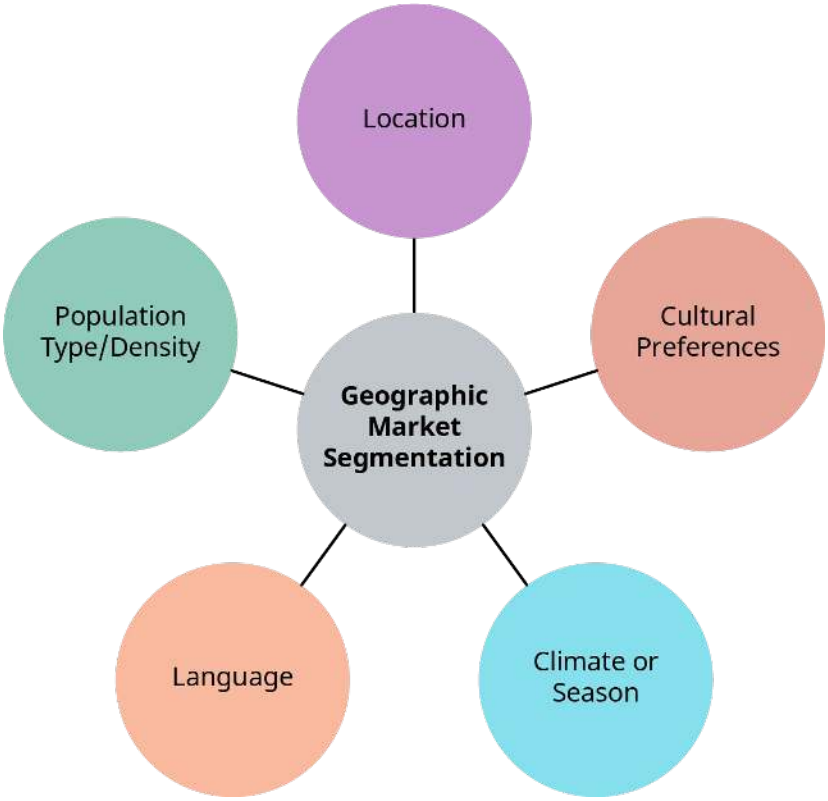


Figure 5.2 Geographic Market Segmentation (CC BY 4.0; Rice University & OpenStax)

Let's explore each of these individually.

Segmenting the market based on location can be as small as a county or zip code or as large as a country. Segmenting a market this way can also be used to identify a new geographic location into which the business may wish to expand.

Starbucks is a great example of a company that uses location segmentation. First, the company segments its markets according to global geographic segmentation—the Americas, China, Asia Pacific, Europe, Middle East, and Africa (Jones, 2015). Each of these segments is then subject to sub-segmentation to cater to markets that share cultural preferences. For example, in China, where tea is the beverage of choice, Starbucks offers a lengthy menu of tea-based drinks like Red Bean, Green Tea Frappuccino, and Black Tea Latte. In Taiwan, where consumers prefer creamy beverages, Starbucks offers Jeju Honey Peanut Latte and Happy Cheese White Mocha (Jacobs, 2020).

Customers' choices and market behavior can also be influenced by their location regarding climate or season. Segmenting the market this way also allows the marketer to present the most relevant information to the audience. There's not much need for snowmobiles during the summer, even in northern climates, and not much demand for convertibles in the middle of winter in those same northern climates. Similarly, companies that sell beachwear are more likely to record increased sales during the summer and in warmer climates.

Language can be used to segment a market geographically. For instance, there are several different languages spoken in different regions and states in India. Therefore, it stands to reason that an advertisement in Hindi would miss the mark in states where Assamese or Telugu is spoken. These advertisements must be translated for people in different regions (Hartley, 2021). To give you an idea of the complexity of this, however, there are more than 19,500 languages or dialects spoken in India and 121 languages spoken by 10,000 people or more (PTI News Agency, 2018)!

Finally, the marketer can segment the market based on population type or density—in other words, whether the market is urban, suburban, or rural. Think about this in terms of a company that does home lawn treatments like fertilization, weed control, or grub control. That company would likely have more success targeting a suburban area where residents need extra yard care. It would be less successful in an urban area where residents have smaller yards or maybe no yards at all!

Demographic Segmentation: The “Who”

Now, let’s look at dividing a market based on demographic segmentation (see Figure 5.3).

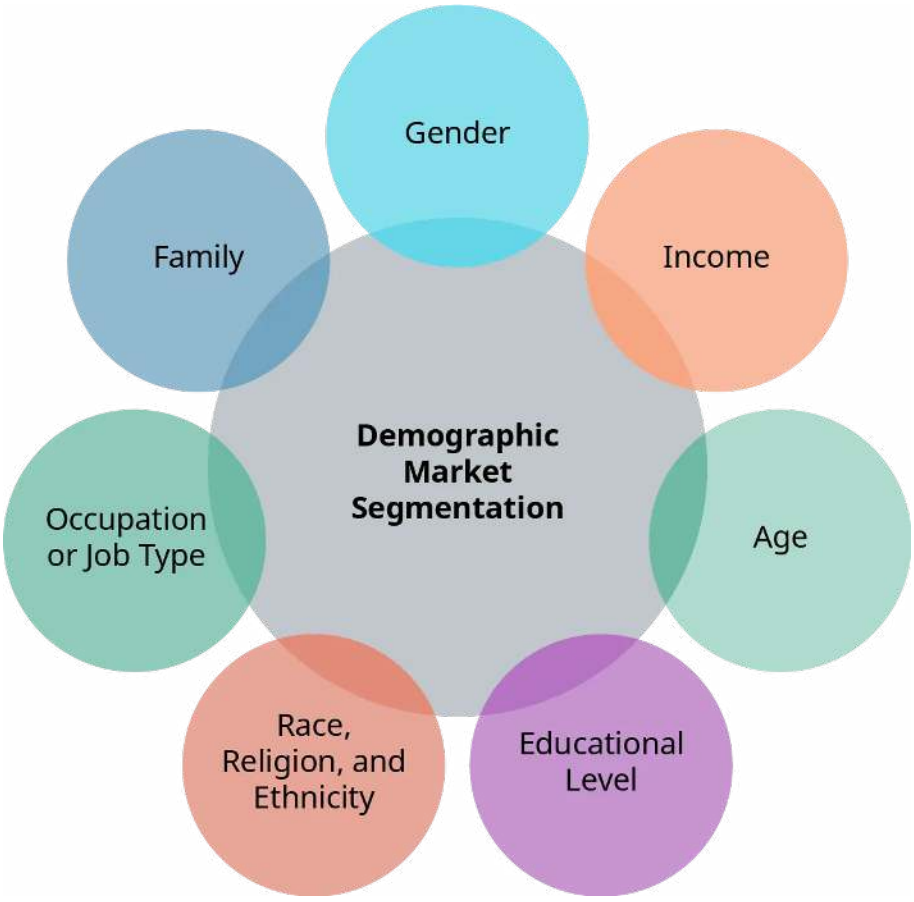


Figure 5.3 Demographic Market Segmentation (CC BY 4.0; Rice University & OpenStax)

With demographic segmentation, the marketer will divide the market into smaller groups, generally based on common demographic factors such as gender, income, age, educational level, race, religion, ethnicity, occupation or job type, and even family structure. These smaller segments enable marketers to focus their efforts and resources on those customers who will likely result in revenue for the company.

With gender segmentation, the market is divided into men and women. Those who identify as men and those who identify as women have different interests in terms of shopping for various products like apparel, shoes, and food. For example, look at the ad campaigns crafted for women in fashion magazines such as *Vogue* or *Vanity Fair*. You’ll likely see a different ad focus in magazines like *GQ* or *Men’s Health*.

Income segmentation involves segmenting the market based on monthly or yearly income. With income data, a company can determine how its potential consumer base spends money on both the high and low ends of the spectrum. Mercedes-Benz is a classic example of this as it markets different car models at different price points: A-Class vehicles starting in the low $30,000 range, C-Class in the $40,000–$55,000 range, E-Class in the $55,000–$72,000 range, and, finally, its S-Class vehicles, which are priced at $95,000 and up (Mercedes-Benz of Chandler, 2021).

Age is another common factor used to segment consumers. It’s likely no surprise to you that our preferences change with age. The products that appeal to us as teens or young adults are likely not the same products that appeal to us when we’re older. The age segmentation is threefold:

- **Age Range.** This type of segmentation represents a specific age group, such as children, teens, adults, and older adults. However, you also need to consider “perceived age” (i.e., how old you feel) versus “actual age” (i.e., your chronological age). Purchases tend to reflect our perceived age rather than our chronological age.

- **Life Cycle or Life Stage.** In the same way our preferences change with age, they change with our life stage, and most people typically pass through many life stages, from childhood to adolescence to young adulthood, middle age, and older adulthood. This type of segmentation can be a little tricky, however, particularly given stereotypes and changing family dynamics. For instance, some teens or young adults may be parents, while middle-aged adults may be starting families, having second families, becoming empty nesters, or are single (or single again).
- **Generation Based.** This method of breakdown defines age by generation, such as baby boomers, millennials, and Generation X. Consumers within generations will differ slightly in age (for example, baby boomers were born between 1946 and 1964, and Gen Xers were born between 1965 and 1980, but these generational cohorts still tend to share certain characteristics and ideas (Robinson, 2017).

Education is another way marketers can segment a market, and it also affects the channels through which marketers reach the target market. For example, if you were going to open a bookstore in your hometown, you'd want to determine the average educational level in your community as part of your due diligence. Are most of your would-be customers elementary or middle school students? Their tastes in reading differ considerably from students at the same levels in a college town populated by several literary professors who prefer the classics (Li, 2021)

Race, ethnicity, and religion can be used to segment a market. It's always dangerous to stereotype, but consumers of different races, ethnicities, and religions have different preferences and needs. Consider a company like Zondervan, a leading Bible publisher. It would make sense for the company to segment its market based on religion because it offers products that complement a particular group's religious beliefs. Likewise, IMAN Cosmetics is designed for women with darker skin tones, so its target market would likely be women of color.

Marketers can also segment the market based on occupation or job type. Focusing on a smaller market segment enables a company to make better use of its limited resources. For example, AllHeart produces medical scrubs, nursing uniforms, shoes, and medical accessories, so it has segmented the market to focus on medical professionals. Another example can be found with Saf-Gard, a producer of safety shoes and work boots that meet or exceed safety standards. This company targets workers in the construction and farming industries.

Finally, a company can segment its market based on family structure, marital status, whether children are in the home, and the life stages of those in each family.

Behavioral Segmentation: The "How"

Behavioral segmentation divides consumers into market segments depending on their behavior patterns when interacting with a product or service (see Figure 5.4).

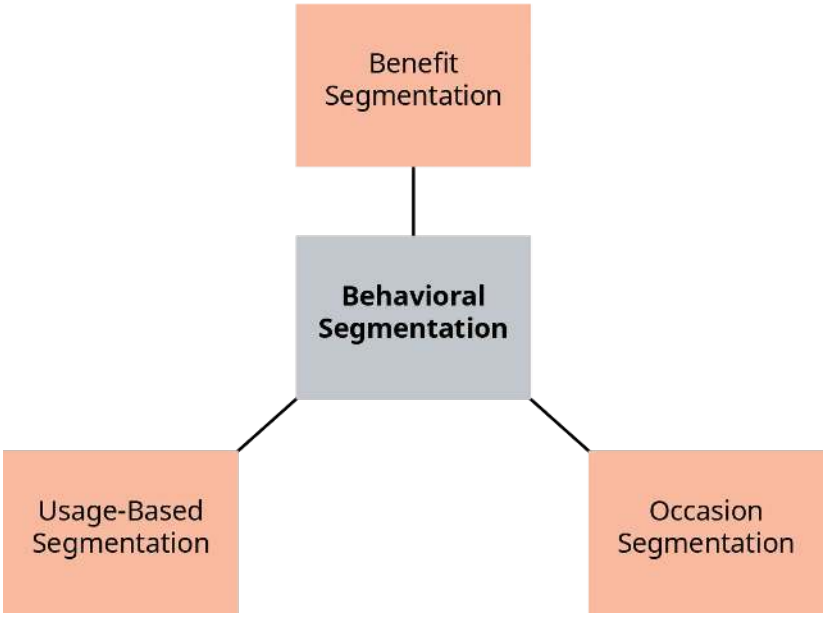


Figure 5.4 Behavioral Market Segmentation (CC BY 4.0; Rice University & OpenStax)

The behavioral pattern benefit segmentation focuses on which benefits or features of a product or service are most applicable to the customer. Consider toothpaste. People who buy toothpaste may do so for a variety of reasons—for instance, sensitive teeth, tartar control, whitening, fresh breath, or cavity prevention. This means that two consumers may look identical in terms of their demographics but have very different values regarding the benefits and features that are most important to them.

For example, Procter & Gamble markets various formulations of its Crest brand toothpaste, including Crest Kids, Gum Detoxify Deep Clean, Gum and Breath Purify Deep Clean, and more. Marketing messages sharing the toothpaste's benefits and differences are tailored for each formulation (Procter & Gamble, 2022).

Occasion segmentation divides consumers (or potential consumers) based on the occasions when they make purchases or plan to buy. Occasion marketing is huge because marketers know that consumers will purchase certain items on certain occasions. Just look at the number of Internet or TV ads advertising chocolates, flowers, and jewelry in the weeks preceding Valentine's Day or the sudden appearance of Peeps and chocolate bunnies before Easter.

Usage-based segmentation identifies various user segments based on how much they use a product. Consumers are typically divided into groups of non-, light, medium, and heavy product users. As a general rule, companies target heavy users because although heavy users may be a relatively small percentage of the market, they generally account for a high percentage of total buying. This is actually called the Pareto principle in marketing, which asserts that 80 percent of a company's revenue comes from the top 20 percent of repeat or loyal customers (Appanna, 2021).

Link to Learning: Pareto Principle

Regardless of which area of business you go into, the Pareto principle is a concept you will encounter often. It's a concept people adopt in both life and management. Check out these resources to learn more:

- Simply Psychology article: Pareto Principle (The 80-20 Rule)
- Better Than Yesterday video: The Pareto Principle—80/20 Rule—Do More by Doing Less



- Fresh Books Blog article: How to Increase Productivity Using the Pareto Principle
- HubSpot article: www.blog.hubspot.com/marketing/pareto-principle

Psychographic Segmentation: The "Why"

Psychographic segmentation breaks down consumer groups into segments that influence buying behaviors, such as lifestyle, personality variables, and values (see Figure 5.5).

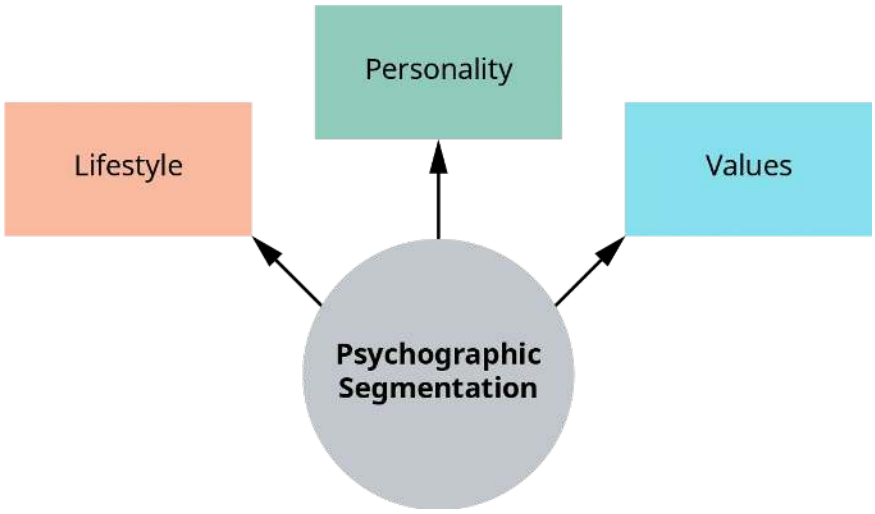


Figure 5.5 Psychographic Market Segmentation (CC BY 4.0; Rice University & OpenStax)

A person's lifestyle provides insight on what they value or how they spend their time and money. Marketers analyze three lifestyle dimensions, commonly called AIO (activities, interests, and opinions) variables:

- **Activities.** Activities focus on a person's daily routine and/or hobbies. For instance, if you're an urban dweller who rides your bike to work and works out regularly, your buying patterns will probably bee be vastly different from those of someone who drives to work and doesn't work out.
- **Interests.** Interests drive passions. What are your interests? Crypto investing? Gaming? Photography? That's important information for marketers because, by identifying your interests (assuming you're a target consumer), they can more easily determine what marketing messages will appeal to you.
- **Opinions.** Opinions matter, and especially in the age of social media, opinions spread fast. Companies monitor social media sites to gain insight about consumers' opinions of their products or services and respond accordingly—and quickly! Companies such as PepsiCo and Mastercard continuously monitor 24/7 all social media postings about their companies, products, and competitors worldwide.

Link to Learning: Social Media Segmentation

There are several ways to segment social media markets. Read more about it on HubSpot: "8 Simple Ways to Segment Your Social Media Audience." Understanding how social media influences market segmentation is critical. Read this article from Marketing Tech to gain insight.

Marketers can also segment a market based on personality variables to create a group of people with similar personality traits because personality and purchasing habits are strongly related. To illustrate this, look at the fitness tool Mirror. This interactive home trainer has performed well in the market since its inception in 2018 because it targets those people who want to work out but can't find the time to go to the gym.

Link to Learning: Personality Segmentation

Harley-Davidson is another great example of a company that segments its market based on personality. Check out this video from Harley-Davidson as an example of how it sends a message that resonates with motorcycle riders.



Values are the principles and important things that influence the way you live and work. As one example, environmental concerns are becoming a value issue for consumers, and they are looking for products from companies that are better for the earth. Knowing this, IKEA has incorporated a furniture buyback and resale program in the United States. If you have a piece of IKEA furniture that's an oldie but still a goody and you want to retire it, IKEA will buy it back and help you pave the way toward sustainable living (IKEA, 2024). Another great example is Lululemon's Like New program. You can bring in any used Lululemon gear, trade it in at the store, get an eGift card for use at a Lululemon store, and 100 percent of the Like New profits are reinvested in the company's sustainability initiatives (Lululemon, 2024).

In addition to the AIO model of psychographic segmentation, there is another model known as VALS (values, attitudes, and lifestyles) that segments consumers into eight different types (as shown in Figure 5.6).

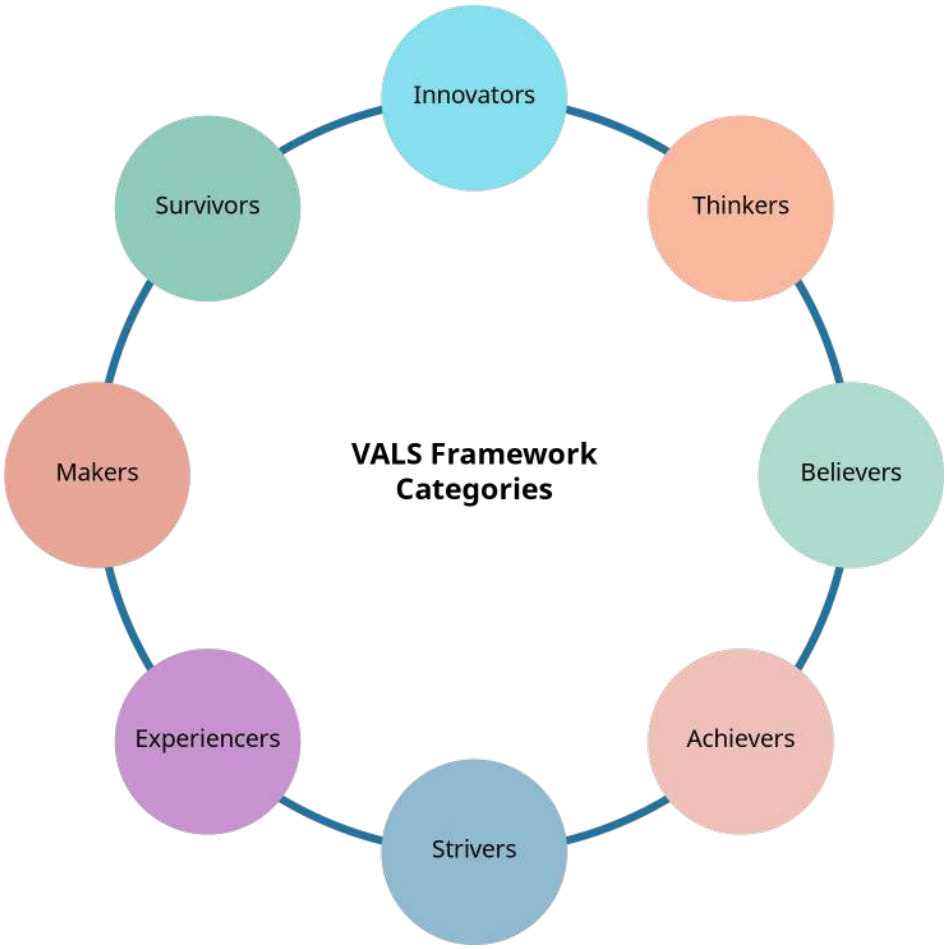


Figure 5.6 The VALS Framework (CC BY 4.0; Rice University & OpenStax)

The premise of VALS is relatively simple: if you know what consumers are thinking, you will know which promotions or marketing messages will attract them to your product or service. And you can use the framework to determine what consumers think by determining their values, attitudes, and lifestyles (Bhasin, 2020).

Let's take a look at these eight consumer types:

- *Innovators* are characterized by high income and high resources. These innovators have definite individual tastes and preferences and are motivated to achieve the "finer things" in life.
- *Thinkers* are consumers who have resources and are motivated by their knowledge.
- *Believers* are subtly different from thinkers in that thinkers typically make their own decisions, whereas believers look to their peers to affirm their decisions. They have fewer resources than innovators or thinkers.
- *Achievers* tend to be high-resource consumers who want to excel, both in the workplace and within their families. They are likely to purchase brands that have stood the test of time in terms of their success in the marketplace.
- *Strivers* tend to be lower-resource consumers. They have similar values as achievers but lack the same level of resources.
- *Experiencers* have relatively high resources and want to experience "being different." The majority of those with these experiences (experiencers) are young adults.
- *Makers*, like experiencers, want self-expression, but they lack the resources to make that happen, so they tend to be more focused on building a better family than spending money.
- *Survivors* have the least number of resources and are the least likely to adopt innovative products. Survivors tend to be brand-loyal customers (Bhasin, 2020).

Using Multiple Segmentation Bases

Keep in mind that a company doesn't have to use just one or two segmentation bases; it can use all of them or a mix of them, a process that's also known as multi-segment marketing. It's not uncommon for companies to develop products that compete against their own offerings as long as the new products offer different perceived benefits to consumers. For instance, Procter & Gamble sells several different types of laundry detergent, such as Tide, Gain, and Cheer. Each of these brands offers different benefits like all-temperature use, fresh scent, unscented, stain removal, or whitening. By having these different brands, P&G can appeal to multiple target markets.

Careers In Marketing: Market Research Analyst

What does a market research analyst do, you might ask? They study markets and data to determine potential new opportunities for a company. According to the Bureau of Labor Statistics, the typical entry-level education required is a bachelor's degree, and there are about 741,000 jobs with an expected growth rate of 22 percent from 2020 to 2030. This article from Coursera, "What Is a Marketing Analyst? And How to Become One," outlines job roles and responsibilities, compares this job with other types of analyst jobs, and describes steps for becoming a marketing analyst.

Watch this video to learn about the typical marketing analyst job description. And watch this video from a real digital marketing analyst at Accenture to learn what a typical day includes.



Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

In China, Starbucks offers tea-based drinks featuring regional ingredients. On what basis has Starbucks segmented its market?

a. Demographic
b. Behavioral
c. Geographic
d. Psychographic

2.

A travel agency offers adventure trips like hut-to-hut camping in the mountains as well as taking quieter vacations in all-inclusive resorts. On what basis has the travel agency segmented its market?

a. Psychographic
b. Demographic
c. Behavioral
d. Geographic

3.

Road Scholar is an American not-for-profit organization that provides educational travel programs geared primarily to older adults. On what basis has Road Scholar segmented the market?

a. Geographic
b. Psychographic
c. Demographic
d. Behavioral

4.

Garnier offers a wide range of shampoos, including hydrating shampoo, smoothing shampoo, color-safe shampoo, volumizing shampoo, and more. On what basis has Garnier segmented the market?

a. Geographic
b. Psychographic
c. Behavioral
d. Demographic

5.

Peloton's main products are Internet-connected stationary bikes and treadmills that enable subscribers to participate remotely in live classes via streaming media. This enables subscribers to have a "spin class" experience without going to the gym. On what basis has Peloton segmented the market?

a. Demographic
b. Behavioral
c. Geographic
d. Psychographic

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5.3: Segmentation of B2B Markets

Learning Objectives

By the end of this section, you will be able to:

- Describe the challenges of segmenting B2B markets.
- Discuss the advantages of segmenting B2B markets.
- Explain methods of segmenting B2B markets.

Challenges of Segmenting B2B Markets

Just like its consumer market counterpart, business-to-business (B2B) market segmentation focuses on identifying unique market segments based on common characteristics. However, segmenting a B2B market is in many ways far more challenging than segmenting a consumer market because the motivations, processes, and considerations of B2B buyers are quite different from those of business-to-consumer (B2C) buyers. Let's take a closer look.

- **Challenge #1: Dealing with Highly Complex B2B Markets.** As discussed in Business Markets and Purchasing Behavior, decision-making in B2B markets is quite different from decision-making in B2C markets. In a B2C market, the consumer is often the only decision-maker involved in making a purchase. That's not the case in B2B markets, where you're often dealing with a buying center—all the people in the organization who have varying influence on the B2B buy decision. You may also recall from this chapter that buying centers have various members who play different roles, such as users, initiators, influencers, gatekeepers, decision-makers, etc. Accordingly, it can be difficult to identify precisely who the target buyer is (Infiniti Research, 2018).
- **Challenge #2: Dealing with More Rational Buyers.** Although the view is somewhat controversial, it is said that B2B buyers are more "rational." Consumers tend to buy what they want and are more affected by emotions when making buying decisions. Alternatively, B2B buyers typically buy what they need, and buying decisions are more deliberate, particularly in terms of price. Accordingly, in B2B markets, the marketer must determine the drivers of those needs.
- **Challenge #3: Complexity of B2B Products.** Just as the decision-making unit in a B2B transaction is more complex, so too are the B2B products themselves. When you make a major purchase, like a high-definition TV, your choice is likely made based on fairly simple criteria. You might evaluate things like screen size, resolution, and your budget. However, in the B2B market, even the simplest products may have to be integrated into a larger system. For example, a new payroll system might have to be integrated into the company's human resources information system (HRIS). Another consideration with respect to the complexity of B2B products is that many B2B purchases are frequently tweaked to meet the company's detailed specifications, whereas consumer products are almost always standardized (Hague & Harrison, 2022).

Advantages of Segmenting B2B Markets

Market segmentation is a tried-and-true method that's been around since the 1950s, but there is still some confusion about how to use it in a B2B setting because it's not as clear-cut as other forms of market segmentation. How does a marketer target the characteristics of something impersonal like a business? Despite the challenges of segmenting B2B markets, it still plays a critical role. Let's examine some of the advantages (Kompass International, 2023).

- **Improved Campaign Performance**. Like the previous example of a company using specialty magazines to reach the right target audience with the right message, B2B marketers can do the same. For example, Mailchimp, a marketing automation platform and email marketing service, examined user data to compare segmented marketing campaigns with non-segmented campaigns. The statistics based upon a comparison of 18 million email recipients were eye-opening. Campaigns directed toward defined market segments saw increases in several areas, including a 14.3 percent higher email open rate (Kenny, 2024).
- **Improved Customer Loyalty and Retention**. In our discussion of consumer market segmentation, we pointed out that market segmentation allows marketers to better understand what consumers are looking for in a product or service, and the same holds true with B2B market segmentation. The more marketers know about their customers' business objectives and challenges, the more they can attempt to meet their needs. That not only builds confidence in the brand but also ultimately leads to greater customer retention and loyalty (Roy, 2020).

- **Assistance in Product Development**. By using market segmentation, a company can refine its products or services to better meet the needs of its B2B customers. For example, let's say your company's product is payroll software. Having better identified the needs of the target market, your company may be able to add new features and functionality to make it even more attractive for the target market and possibly add a new revenue stream by making the product useful for another market segment.
- **Improved Profitability**. Implementing a market segmentation strategy accomplishes three important goals. First, targeting the right B2B customers with the right message increases your company's competitiveness. Second, it enables the marketer to price products properly and at the best price for its different customer segments. Third, it helps identify the best prices to target new customers and ensure that your organization's offerings are neither overpriced nor underpriced, thereby increasing profitability (Pribanic, 2020).

Methods of Segmenting B2B Markets

How do you segment B2B markets? Just like with consumer markets, there is a variety of methods. Marketers can segment B2B markets based on firmographics, techno graphics, needs-based segmentation, value-based segmentation, and behavioral segmentation (see Figure 5.7). We will look at each of these in the following sections.

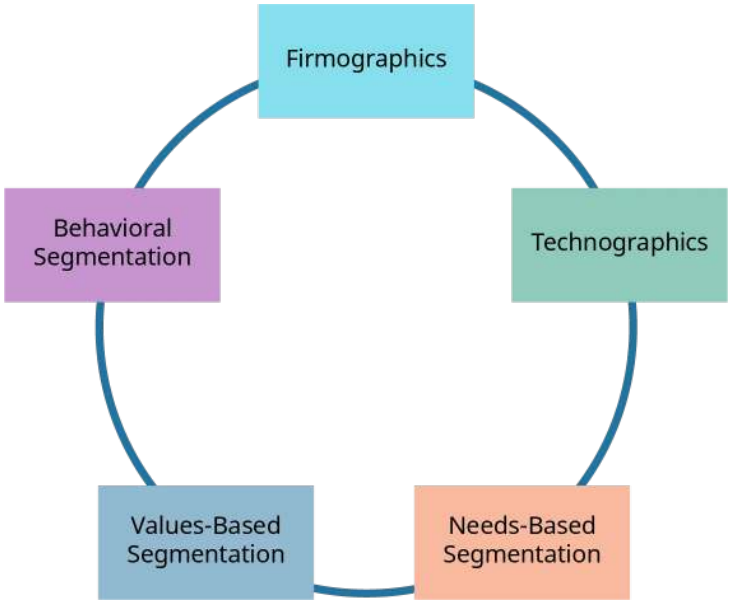


Figure 5.7 Methods of Segmenting B2B Markets (CC BY 4.0; Rice University & OpenStax)

Firmographics

Where demographics are concerned with people, firmographics are concerned with companies. They are a grouping of B2B customers based on shared company attributes. There are five general categories of firmographics:

- **Industry.** What are the organization's primary activities? Once you've determined that piece of information, you can use market segmentation to group firms that are in a similar line of business.
- **Location.** The mantra in the real estate industry is that three things matter: location, location, location. As for geographic segmentation in the B2C market, a marketer can choose a city, state, country, or even continent, depending on the line of business. For instance, depending on the cybersecurity challenges or threats customers face in different countries or regions, a cybersecurity firm may offer different cyber safety features in its software (Roy, 2020).
- **Size.** Will your company target small and midsize operations or Fortune 500 companies? The needs of these organizations are vastly different. Firmographic size typically involves two components: revenue and number of employees.
- **Legal Structure.** In firmographics, legal structure denotes the legal status of a firm. For example, is the organization a sole proprietorship, a limited liability company, a corporation, or a nonprofit firm? Is it an independent business, a parent company, or a subsidiary of another business (Roy, 2020)? All of these factors are important to know to create targeted content.

- **Performance.** Customer segments can be broken down based on performance, such as market share, quarterly or annual sales figures, and growth and/or losses (both in employees and revenue).

Segmenting Customers Based on Technographics

Technographic segmentation is based on the various hardware and software technologies used by B2B customers. It allows the marketer to organize prospects by their technology ownership and usage and narrow the market to those prospects who want to invest in new technological solutions in the future (Roy, 2020).

Needs-Based Segmentation

Think about it: What's the point of marketing a product or a service to an organization that doesn't need it? Needs-based segmentation is the concept that a marketer should focus limited resources on those customers who need the product and can purchase it.

Needs-based segmentation clusters groups of customers based on what they need or want when seeking a product. Does your company's product offer the features or benefits that the B2B buyer is seeking? Will the product meet the buyer's (or company's) needs? Those are the questions marketers need to answer when segmenting the B2B market based on needs. The late Theodore Levitt, an economist and a professor at Harvard Business School, once said, "People don't want to buy a quarter-inch drill; they want a quarter-inch hole" (Puterman 2018). Accordingly, rather than segmenting a market based on firmographics, many marketers choose to segment it based on what is valued by decision influencers.

Value-Based Segmentation

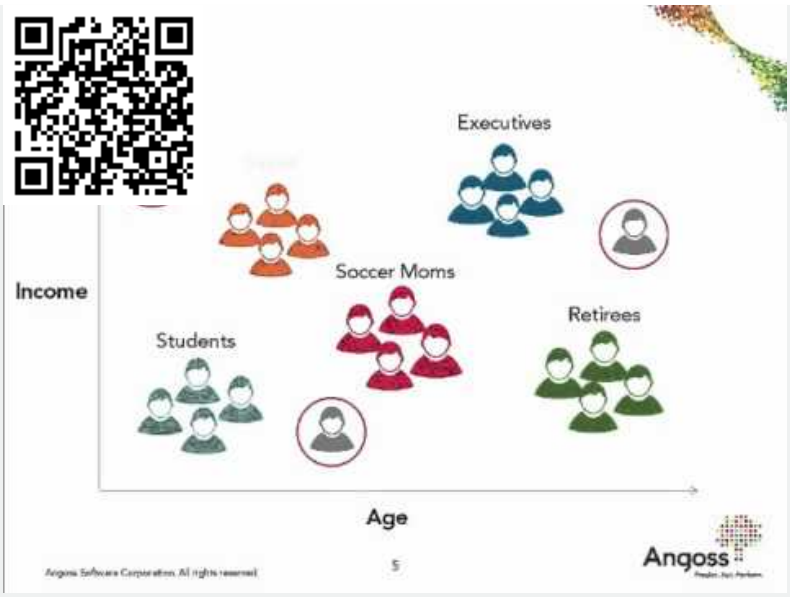
Value-based segmentation (tiering or profitability segmentation) groups customers according to the potential value they may bring to a business. It places potential customers with the same value level (or "transactional worth") into individual segments for target marketing. In its simplest terms, this approach is like the usage-based segmentation strategy of B2C markets. A marketer examines previous purchase data to determine how much a company buys, how frequently it buys, and the value of the purchases (Roy, 2020).

Behavioral Segmentation

Behavioral segmentation considers the behavior of customers toward a company's products or services. We're not talking about two-way mirrors or covert operations here. This can be as simple as determining how the customer interacted with your company's website, what content they interacted with, and whether the customer opened your last marketing email. The marketer then segments customers on the basis of their interaction with the company and attempts to discern if customers within that segment have become more interested or less interested over time. Behavioral segmentation is often used together with value-based segmentation to identify which customers should be pursued to get greater value out of them (Roy, 2020).

Link to Learning: The Importance of Segmentation

For more information on the importance of segmenting B2B customers, check out this video, The Importance of Segmenting Your Customers. This video is from AngossSoftware, global leader in delivering business intelligence software and Cloud solutions that help businesses capitalize on their data by uncovering new opportunities to increase sales and profitability and reduce risk. This video speaks to the importance and value of knowing your customers.



Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Hoffman Enterprises, a manufacturer of electronic controls for appliances, has segmented its customers based on the size of the company in terms of revenue and its geographic location. What method of segmenting B2B markets is Hoffman Enterprises using?

a. Technographics
b. Behavioral
c. Firmographics
d. Needs Based

2.

Matias is a marketing manager for a company whose product integrates with customer relationship management (CRM) systems such as Salesforce. In order to segment the market, he researches which companies currently use Salesforce as well as any other complementary or competing tools. On what basis is Matias segmenting the market?

a. Technographics
b. Value-based
c. Behavioral
d. Firmographics

3.

Which form of B2B market segmentation differentiates customers according to their "transactional worth"?

a. Behavioral
b. Firmographics
c. Value-based
d. Needs-based

4.

Which form of B2B market segmentation groups customers based on sets of characteristics such as industry, location, size, legal structure, and performance?

a. Technographics
b. Psychographics
c. Firmographics
d. Demographics

5.

Which B2B market segmentation strategy clusters groups of customers on the basis of what features they normally look for in a product?

a. Firmographics
b. Behavioral
c. Technographics
d. Needs-based

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5.4: Segmentation of International Markets

Learning Objectives

By the end of this section, you will be able to

- Describe the challenges of segmenting international markets.
- Discuss the advantages of segmenting international markets.
- Explain methods of segmenting international markets.

Challenges of Segmenting International Markets

As we've outlined in this chapter, companies can't be all things to all people because buyers differ in needs, wants, and demands. Accordingly, just as with consumer markets and B2B markets, companies typically find it necessary to segment international markets.

That's not to say that segmenting international markets is easy; rather, the reverse is true: it adds a whole new set of complications, including differences in cultural, economic, and political environments in various countries. Additionally, because of those cultural, economic, and political differences, consumers in international markets tend to be more diverse in character than domestic markets. Moreover, the range of income levels and populations and the diversity of lifestyles in international markets tend to be significantly greater than in the domestic market (Wind & Bell, 2008). Accordingly, a single marketing strategy for all segments is questionable at best.

Advantages of Segmenting International Markets

The advantages of segmenting international markets aren't all that different from the advantages of segmenting the consumer or B2B markets, but there are some subtle differences. A marketer in the United States may have a much easier time understanding the needs and wants of U.S. consumers, but that may not be the case with international consumers. Segmenting the international market and conducting market research allows the marketer to better understand international customers. It also enables the marketer to identify similarities and differences across international markets, which may lead them to combine segments across countries or regions (Wind & Bell, 2008).

Methods of Segmenting International Markets

There are four primary methods of segmenting international markets, as shown in Figure 5.8.

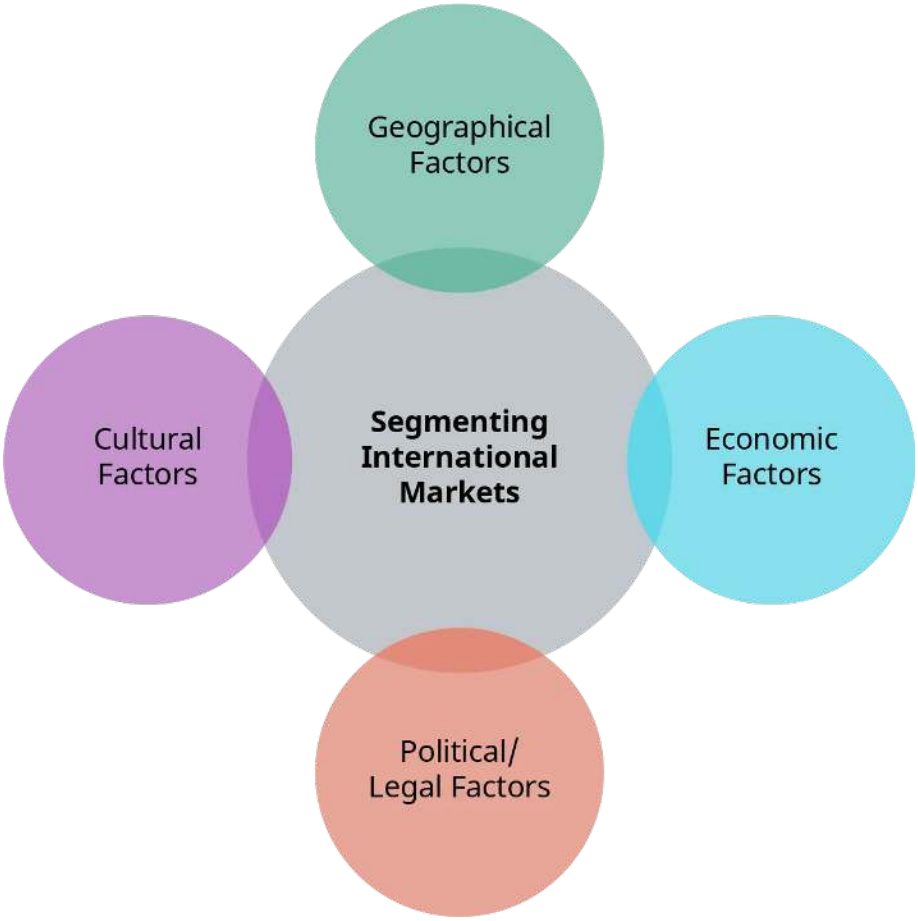


Figure 5.8 Segmenting International Markets (CC BY 4.0; Rice University & OpenStax)

Geographic Segmentation

Just as with domestic markets, international markets can be segmented geographically. A company might segment by regions, such as Western Europe, the Middle East, Africa, Latin America, etc. Keep in mind, however, that although geographic segmentation groups countries by location, they may be very different from one another in other respects. Consider, for example, the countries in Western Europe. You'll find that, both culturally and economically, the United Kingdom and Scotland are very similar, but both differ significantly from neighboring Ireland (Fillmore, 2023). Similarly, people in West Africa tend to share similarities in dress, cuisine, and music, but these characteristics aren't shared extensively with groups outside West Africa (Jerry, 2014).

In terms of geographic segmentation, marketers also need to consider the country's infrastructure—the nation's basic physical systems, such as roads, sewage treatment, communication, water treatment, electricity, etc. You may have the best product for the consumers in the international market segment, but if the infrastructure is such that you can't reasonably get the products to the consumers, that represents a restraining force that limits the opportunity.

Although the project is controversial, China has invested billions of dollars to strengthen its economy and global trade through its Belt and Road Initiative (BRI), a vast network of railways, energy pipelines, and highways through six economic corridors, both westward through former Soviet republics and southward to Pakistan, India, and Southeast Asia. To expand maritime trade traffic, China is investing in port development along the Indian Ocean, from Southeast Asia to East Africa and parts of Europe. The BRI spans a multitude of infrastructure projects intended to promote the flow of goods and foreign investment and is expected to impact more than 80 countries (Varma, 2018).

Segmentation Based on Political and Legal Factors

As you've seen from our discussion of segmenting consumer markets, it's often based on factors such as age, gender, product usage, and personality. That's true as well in international markets, but the marketer needs to add yet another dimension: country characteristics. These characteristics are typically political and legal factors, such as the type and stability of the government, how

receptive the government is to foreign firms, monetary regulations, and the nation's complexity and bureaucracy (Hahu Zone, 2024). Numerous other governmental policies can also interfere with international trade, such as tariffs (taxes imposed on imports), import quotas, currency controls, and local content requirements.

In 2022, in response to Russia's invasion of Ukraine, major sanctions were put in place against Russia by the United States, the European Union, and the United Kingdom. For example, the United Kingdom imposed a 35% tax on some Russian imports, and several international companies such as McDonald's, Coca-Cola, Starbucks, and Marks & Spencer have either suspended operations in Russia or have withdrawn altogether. It doesn't take much to imagine the financial impact these sanctions have had on Russia (BBC, 2024).

Segmentation Based on Economic Factors

Yet another way to segment markets internationally is based on economic factors—the level of economic development and the income levels of the population. This is often differentiated based on whether the country is developing, developed, or underdeveloped. This classification is based on the nation's economic status (i.e., gross domestic product, gross national product, per capita income, degree of industrialization, and standard of living).

Developed countries typically have a high rate of industrialization and a relatively high level of individual income. Unemployment and poverty are typically low in developed nations, and citizens enjoy a relatively high standard of living and higher life expectancy (BBC, 2024). Companies will likely focus their international marketing efforts in developed nations. According to the United Nations, in 2020, 36 countries were classified as developed; interestingly enough, all of these countries were located in either North America, Europe, or "Developed Asia and Pacific" (The Investopedia Team, 2023).

Developing countries, on the other hand, have a lower standard of living, a lower per capita income, and a slow rate of industrialization. Unemployment and poverty tend to be relatively high compared with developed countries, as are infant mortality rates (The Investopedia Team, 2023). The United Nations categorized 126 countries as developing, and all of these were located in either Africa, Asia, Latin America, or the Caribbean (The Investopedia Team, 2023).

Underdeveloped countries are less developed economically than most other nations. These countries typically have little industry, and the standard of living is considerably lower than in developed or developing countries. Infrastructure may also be compromised in terms of roads, sewage treatment, water quality, etc. As a general rule, although there may be an attractive market for your company's product or service in an underdeveloped country, the challenges of getting the product into the customer's hands are often difficult to overcome.

Segmentation Based on Cultural Factors

Cultural factors, such as common language, religions, values, and attitudes, can also be used to segment a country or region. McDonald's uses a "think global, act local" strategy to help meet the cultural needs of various market segments. On one hand, it offers a standardized menu of offerings worldwide, such as McNuggets and the McFlurry. On the other hand, it customizes other offerings on its menu to adapt to the cultural requirements of consumers. For example, in India, to appeal to vegetarian and non-beef-eating customers, McDonald's introduced the Maharaja Mac, made with a corn and cheese patty. The company also used the term "Maharaja" to appeal to India's history and liking of royalty and called it the "Social Burger" to suggest that it can be eaten quickly, giving people more time to spend with friends (Arianna & Virginia, 2021).

McDonald's not only customizes its menu based on where it operates, but it also customizes its digital and TV advertisements depending on each country and consumer segment. For example, in Singapore, McDonald's ads attempted to appeal to consumers' love of nightlife by showing how McDonald's can enhance a night out. In contrast, in the United Kingdom, the company created cartoon ads focusing on Happy Meals to attract the large segment of children in the UK (Arianna & Virginia, 2021).

Not to be outdone by McDonald's, Burger King also offers a wide variety of international menu items that aren't available in the United States. Did you know that there's a Spicy Shrimp Whopper available in Japan and a SufganiKing (Donut Burger) in Israel? In Norway, where there is one sauna for every two people, Burger King opened a fully operational spa, complete with a 15-person sauna and media lounge where customers can enjoy their meals (Burke, 2019).

One model that is particularly useful in assessing culture is social psychologist Geert Hofstede's cultural dimensions, originally published in the 1970s. Hofstede had studied IBM employees in over 50 countries and identified five dimensions that could be used to distinguish one culture from another (Mind Tools, 2022). Four of these dimensions directly affect marketing in different cultures:

- **Power Distance Index (PDI).** This dimension refers to how much power inequality exists within a culture and the degree to which people are accepting of this inequality. A high PDI score suggests that society accepts unequal power distribution, whereas a low PDI score means that power is shared and widely dispersed. If you're curious, the United States has a moderately low PDI score of 40 on a scale of 1 to 100, compared with a world average of 55 (International Business Center, 2022). This means that the United States is less accepting of hierarchy and authority than nations such as Malaysia, which has the highest power distance index in the world (Sweetman, 2012). This cultural dimension plays an important role in marketing because, in countries where there is a high-power distance index, marketers need to appeal to the leadership or the head of the family, whereas in low-power-distance index countries, it's more important to reach a broad range of "ordinary" people who will be the ultimate decision-makers.
- **Individualism versus Collectivism (IDV).** This dimension refers to whether the culture emphasizes the needs and goals of the group as a whole or whether individual needs are paramount (Cheery, 2022). Think of individualism and collectivism as an "I" versus a "we" orientation. An individualistic society emphasizes attaining personal goals, whereas a collectivist culture emphasizes group goals and the group's well-being. The United States has a very high individualism score of 91, compared with many Latin American countries, such as Ecuador and Guatemala, which have single-digit individualism scores (Clearly Cultural, 2024). The implications for marketing are important here because, for countries with high individualism, the marketing messages should emphasize how your products or services benefit them individually, such as by saving time and rewarding themselves. On the other hand, in countries with a low individualism ranking, it's more important to stress how buying your company's products will benefit the community as a whole.
- **Uncertainty Avoidance (UAI).** This dimension refers to the degree to which a society avoids risk or ambiguity. Societies with high uncertainty avoidance compensate for this uncertainty by establishing rules, policies, and procedures, whereas societies with low uncertainty avoidance more readily accept change. The UAI for the United States is 46, which puts it in the moderate range compared with European nations such as Italy (UAI of 75) and Poland (UAI of 93) (Mind Tools, 2022). Let's consider how this affects marketing. Cultures with high uncertainty avoidance generally prefer to have product characteristics clearly spelled out, complete with product warranties and money-back guarantees. For example, if you want to market automobiles in that type of culture, it would be important to focus on the car's safety features. Conversely, cultures with low uncertainty avoidance are more accepting of trying something new.
- **Masculinity/Femininity (MAS).** This dimension refers to the degree to which gender-specific roles are valued in a given society: are "masculine" values such as achievement, ambition, and acquisition valued more than "feminine" values such as quality of life and service to others? In countries with a high masculinity ranking (e.g., Japan), men are intended to lead; women are supposed to follow. This is in direct contrast to countries with a low masculinity ranking (such as the United States and Canada), where women are treated equally to men and gender roles are more fluid. Societies with low masculinity tend to respond negatively to gender-oriented promotion, so a neutral approach that appeals to both men and women would be more appropriate (Markgraf, 2024). Consider how many brands in the United States focus on female empowerment and positive body image. That type of advertising would not appeal to a society with a masculine orientation.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

The Hofstede cultural dimension that assesses the degree to which a society avoids risk or ambiguity is known as _____.

a. masculinity/femininity
b. uncertainty avoidance
c. power distance index
d. individualism versus collectivism

2.

Jamal's company is looking to expand into a market in West Africa, but Jamal wants to ensure that there are roads, bridges, nearby airports, and shipping terminals from which to distribute the product. Jamal is examining the country's _____.

a. infrastructure

b. governmental stability
c. inflation and unemployment rates
d. culture

3.

Alexis is making a sales presentation in Japan, and she suddenly realizes that she is the only woman in the meeting. This suggests that Japan has a high _____.

a. degree of uncertainty avoidance
b. individualism ranking
c. power distance index
d. masculinity ranking

4.

Jose’s firm is looking to market its products in Venezuela, but the marketing department is concerned about the country's current inflation rate. This would be considered a(n) _____ factor.

a. geographic
b. political
c. economic
d. cultural

5.

Which Hofstede cultural dimension assesses the degree to which gender-specific roles are valued in a society?

a. Power distance index
b. Masculinity/femininity
c. Uncertainty avoidance
d. Individualism versus collectivism

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5.5: Essential Factors in Effective Market Segmentation

Learning Objectives

By the end of this section, you will be able to

- List and describe the essential factors in effective market segmentation.

Essential Factors in Effective Market Segmentation

There's an acronym you can remember for the essential factors in effective and successful market segmentation—ADAMS. The acronym stands for five criteria:

- **A**ccessible
- **D**ifferentiable
- **A**ctionable
- **M**easurable
- **S**ubstantial

First, a market segment should be accessible. Given your marketing department's strengths and abilities, can you reach consumers in that segment at an affordable cost? For example, if you discover that certain segments respond more effectively to outdoor advertising, social media campaigns, TV infomercials, or print ads, does your organization have the capabilities (and budget) to reach that segment?

Second, a market segment should be differentiable. In an ideal world, a market segment should be internally homogeneous (i.e., consumers within that segment have similar preferences and characteristics) but externally heterogeneous (i.e., different segments should be distinct and different from one another). You must clearly define the differences between market segments so that the marketing programs directed at them can be implemented without overlap.

Third, a market segment should be actionable. Is it practical (or profitable) to execute a marketing strategy aimed at that segment? A market segment should be able to respond to a certain marketing strategy and have outcomes (e.g., awareness, interest, or purchase) that can be easily quantified.

Fourth, a market segment should be measurable. You should be able to accurately estimate the size of the market segment in terms of either sales value or number of customers so that you can decide whether, how, and to what extent you should focus your efforts on that segment.

Finally, a market segment should be substantial. It doesn't make sense to waste resources to market the product or service to a group too small to justify the expenditure of resources (Commence, 2021).

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Mateus is a marketer for a consumer products company. His company is considering marketing a new breakfast drink, but Mateus wants to make certain that there is a sufficient number of consumers in his target audience to make the new product development process worthwhile. Which essential factor of market segmentation is he analyzing?

a. Accessible
b. Differentiable
c. Actionable
d. Measurable

2.

Wall Enterprises is considering developing a new product for a market segment identified by marketing research. However, based on the research, it appears that the market segment may be smaller than originally anticipated. Which essential factor of market segmentation does this reflect?

a. Accessible
b. Differentiable
c. Substantial
d. Actionable

3.

Alma is analyzing the market segment she has identified for a new service to determine whether her firm can reach the consumers in that market within the constraints of her budget, given the firm's resources. Which essential factor of market segmentation does this reflect?

a. Accessible
b. Actionable
c. Substantial
d. Measurable

4.

Idris has been researching a potential market segment for his company's new product. He is concerned that, although the product holds considerable promise, the advertising campaign would exceed the company's budget. Which essential factor of market segmentation appears to be lacking in Idris's analysis?

a. Differentiable
b. Substantial
c. Measurable
d. Accessible

5.

Which essential factor in selecting a target market refers to the ability to accurately determine the size of the market in terms of either sales volume or number of customers?

a. Actionable
b. Differentiable
c. Measurable
d. Substantial

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5.6: Selecting Target Markets

Learning Objectives

By the end of this section, you will be able to

- Define the term "target market."
- Explain target market strategies.

Target Markets Defined

Ultimately, the purpose of segmenting a market is to highlight the differences between groups of customers so that you can decide on which group(s) to focus your marketing efforts and resources—that's your target market (Figure 5.9).



Figure 5.9 Target marketing involves segmenting customer groups and focusing marketing resources on the segments that are most likely to purchase the product or service. (credit: "Three Arrows in the Centre of a Dart Board" by Marco Verch/flickr, CC BY 2.0)

Think of your target market in terms of focusing your marketing resources on segments that are more likely to buy from you. The bottom line is that target marketing is a more efficient, effective, and affordable way to reach customers and generate business. It's simply a subset of the total market.

Keep in mind that the target market isn't the same as the target audience. The target audience is narrower in that it refers to the group of consumers you expect to purchase the product. The audience may or may not overlap with the target market. For example, a children's toy may have a target market of boys between the ages of 6 and 12, but it's the boys' parents (who actually purchase the toy) who are the target audience. Let's take a look at how LEGO has mastered this concept.

Marketing in Practice: LEGO



Figure 5.10 LEGO's segmentation strategy focuses its marketing resources on parents who make the purchasing decisions and are interested in educating their children. (credit: "Lego" by Slack pics/flickr, CC BY 2.0)

You might think that children are the primary target market of toy manufacturers, but smart toy marketers know that they also have to market to parents because it's parents who actually buy the toys for their children. The marketers at LEGO (see Figure 5.10) seemed to have figured this out and have made the brand parent-approved by combining fun for children with an educational "twist."

LEGO brands its products not only as a creative outlet for children but also as an opportunity to grow their interest in STEAM—a learning approach that incorporates science, technology, engineering, the arts, and mathematics. For example, one of its websites features education sets for children from preschool through middle school that promote learning through the toys. Another of its websites has an entire section of tips for playful parenting with LEGO bricks (Dodge, 2017). It also has websites for daily LEGO challenges and even daily build challenges and LEGO lessons for families at home.

Parents today want to buy their children toys that are safe and fun and that help them learn, and LEGO seems to have been able to win over the hearts (and money) of its target audience.

For more information about LEGO and STEAM, watch this video from Kansas City PBS.



Another important concept in target marketing is what's known as a buyer persona. A buyer persona is a semi-fictional representation of an ideal customer that helps marketers understand and relate to the target market. Buyer personas are intended to help marketers "visualize" those to whom they are selling so they can fine-tune their marketing messages.

Best Buy used personas in precisely this way. Its buyer personas are "Buzz" (the young tech enthusiast), "Barry" (the wealthy professional), "Ray" (the family man), and "Jill" (a soccer mom who is the main shopper for the household but usually avoids electronics stores) (Gentle, 2005).

What's typically included in the buyer persona? Some examples include the following:

- **Name.** It may seem silly to include a made-up persona name like Best Buy did, but it's done so that the marketing team can more easily discuss their customers and plan how to reach them.
- **Age.** The age (or age range) of a persona allows for understanding generation-specific characteristics. As we pointed out in our earlier discussion of using age as a way to segment the market, consumers within the same age group tend to share characteristics and purchase preferences.
- **Interests.** The interests of the buyer persona describe things such as hobbies or what they do in their spare time.
- **Media Usage.** What media platforms does the buyer persona use? Television, radio, the Internet? This is important because the marketer wants to know where to reach these "people" with their marketing messages.
- **Finances.** The income and other financial characteristics of the buyer personas help marketers glean insights as to what types of products or services will pique the interests of these buyer personas. These financial characteristics also assist in making decisions about price points and promotions that would be successful in reaching these customers.

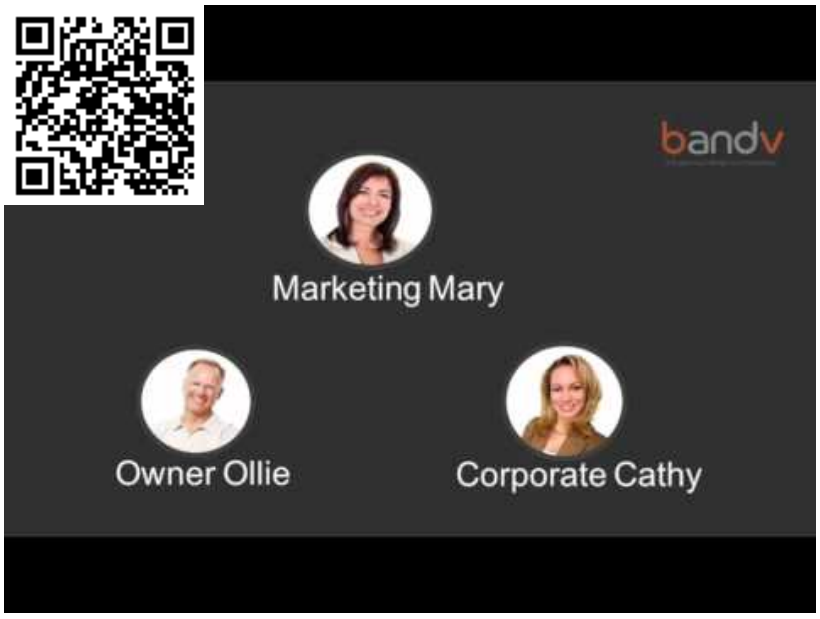
- **Brand Affinities.** Do they like certain brands? If so, this can provide the marketer with valuable information about the type of content to which they best respond (Adobe Experience Cloud Team, 2021).

Link to Learning: Importance of Buyer Personas

Customer personas are a tool to help marketers better understand their potential customers. Learn what a customer persona is and how to develop them from this brief Go Daddy video.



Also, check out this video from HubSpot's Stephen Higgins on how to use buyer personas to drive your marketing strategy.



Target Market Strategies

Thus far, we've discussed the how of segmenting a market and selecting target markets. At this point, it's up to the marketer whether the company will focus its efforts and resources on one or more of the identified segments or instead cater to the mass market. That choice is the determining factor in the company's marketing mix and its positioning plank. There are four generic target marketing strategies, as illustrated in Figure 5.11.



Figure 5.11 Target Marketing Strategies (CC BY 4.0; Rice University & OpenStax)

Let’s look at each of these strategies more closely.

Undifferentiated Marketing (Mass Marketing)

Sometimes, there are no strong distinctions in customer characteristics. In cases like this, the costs involved in developing separate marketing mixes for separate target markets don't make financial sense. That’s when a company may decide to use a single marketing mix for the entire market.

Let’s imagine the entire market as one big apple pie. With undifferentiated marketing, the company doesn’t take just one slice or perhaps a few slices of the pie—it takes the whole thing. The concept of undifferentiated marketing is quite simple. You want to reach as many people as possible and hope they’ll jump on board with your product or service. Mass marketing is typically used when a brand has a product or service that has high market appeal, such as things that most (or maybe even all) people will always need or want. Consider a product that nearly everyone purchases, such as soft drinks. Now think about all the advertising messages you get for a brand such as Coca-Cola—you’ll see TV commercials, magazine ads, billboards, banner ads in search engines, and so on. That’s the hallmark of mass marketing.

One of the biggest advantages of undifferentiated marketing is the scope and cost-efficiency of advertising on a much larger scale. Every single marketing message can be deployed across a variety of media channels and can potentially reach millions of consumers. This is where economies of scale come into play: with high-volume sales, production becomes less expensive because costs can be spread out over a larger quantity of goods. That’s a huge advantage over companies that produce products for smaller, more precisely targeted audiences. It’s like buying in bulk at Sam’s Club or Costco—because you buy so much of a product, the cost is lower. Companies that use undifferentiated marketing experience the same thing (Drake, 2019).

Differentiated Marketing (Segmented Marketing)

Now, let’s take that same apple pie (the entire market), but instead of taking the whole thing, we'll take only some of it. Perhaps we’ll take just a few slices, or maybe we’ll take more. It depends on how many target markets you want to serve. That’s the premise of differentiated marketing.

This type of market targeting is one of the most common. A company identifies several target markets and designs separate, concentrated strategies for each. Separate brands are developed to serve each of the segments. Consider Nike, for example, which (like most apparel companies) offers different products for different segments. When Nike began its business, the founders were

both competitive distance runners, so they targeted people like themselves as a segment of the running shoe market, and the brand took off. However, to grow the business, Nike now focuses on three segments—women, young athletes, and runners (Lutz, 2015).

The automobile market is another good example of a clearly segmented market. Look around you on any given day, and you'll see that people want different types of vehicles—small cars, big cars, SUVs, trucks, hybrids, and luxury cars. Many car makers, such as GM, Ford, Toyota, Honda, and others, generally offer cars for most or all of the segments. For example, Honda's lineup includes models, such as the CR-V compact SUV, the Civic compact car, the midsize Honda Accord sedan, larger SUVs, and even a minivan (Honda, 2024).

Concentrated Marketing (Niche Marketing)

Now we're going to take that same apple pie (remember, representing the entire market), and we're only going to take a single slice, perhaps a small one. That's concentrated marketing.

Concentrated marketing doesn't mean that the company hasn't identified other target markets; it simply means it chooses not to serve all of them. Some markets may not be attractive; others may not align with the company's business strengths. Therefore, the company focuses on just one target market with a single marketing mix. It channels all of its marketing efforts toward that specific segment to " own" it over its competitors and create strong brand loyalty (Chand, 2013).

A good example of concentrated marketing is the eco-friendly cosmetics retailer LUSH. LUSH advocates for ethical buying and purity of handmade products and doesn't use animals to test them. As a matter of fact, at least half of its website is dedicated to fighting animal testing and overuse of plastic packaging and creating environmental awareness. The company also differentiates itself from its competitors with eco-friendly packaging and organic ingredients (Hugel, 2022).

This is a smart strategy for smaller companies or companies with limited resources that might be stretched thin if they attempt to compete in too many market segments. It has the added benefit that R&D and marketing can concentrate on understanding and meeting the needs of one group of customers rather than a diverse base of customers.

Micromarketing (Customized Marketing)

Micromarketing goes one step further than concentrated marketing and targets a specific group of individuals within a niche market based on specific information that has been collected about them.

For a good example of micromarketing, consider the real estate industry. A realtor may specialize in commercial sales or residential sales. Within the scope of residential sales, that realtor may drill down further and specialize in new construction, luxury properties, land and development, over-55 communities, or farms/ranches/equestrian properties.

Now, let's assume that you're in the market for an expensive home in a particular area of the city. You'd likely contact a realtor who has developed a reputation for dealing with properties in a specific price range and knows the area where you'd like to move. That realtor will consider your specific needs and demands and invest their efforts in finding a property that meets as many of your requirements as possible. That's micromarketing.

Stitch Fix is another good example of a company that uses micromarketing. Stitch Fix is an online personal styling service for men, women, and children that sends a selection of clothing and accessories to your door using a mix of machine learning, data, algorithms, and human stylists. The company uses "85 meaningful data points" about each customer, and based on those data points, it predicts clothing choices that the customer will want. If they don't like the product, they can just send it back with a prepaid, printable label within 30 days (Lam, 2017). You can't get much more personalized than that!

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

M&M's addresses people of all ages and appeals to everyone looking for sweets (that melt in your mouth, not in your hand). What target marketing strategy does M&M's use?

a. Differentiated marketing
b. Concentrated marketing

c. Undifferentiated marketing
d. Micromarketing

2.

A _____ is a semi-fictional representation of your ideal customer that helps you understand and relate to the audience to which you want to market your product and/or services.

a. buyer persona
b. target market
c. niche market
d. brand affinity

3.

Lefty's is a retail shop that makes specific products such as left-handed scissors and left-handed notebooks for the population of left-handed people. What target marketing strategy does Lefty's use?

a. Undifferentiated marketing
b. Differentiated marketing
c. Concentrated marketing
d. Micromarketing

4.

A running shoe company specializes in designing sustainable sneakers from recycled and renewable materials for athletes who care about the environment, as well as performance models of running shoes with less cushioning for runners concerned with speed. What target marketing strategy does the running company use?

a. Concentrated marketing
b. Undifferentiated marketing
c. Differentiated marketing
d. Micromarketing

5.

55places.com is a website for active adult "retirement" communities in the United States. It features unbiased information, current home sale listings, floor plans, photos, and third-party reviews. All the communities listed on the website are for residents age 55+. What target marketing strategy does the company use?

a. Undifferentiated marketing
b. Differentiated marketing
c. Micromarketing
d. Concentrated marketing

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5.7: Product Positioning

Learning Objectives

By the end of this section, you will be able to

- Define product positioning.
- Explain approaches to product positioning.
- Describe the positioning statement and perceptual maps.

Product Positioning Defined

So far, you've segmented the market by dividing the market into distinct groups of customers using the segmentation process and you've determined which customer group(s) you want to focus your marketing efforts on—the target marketing process. **Product positioning** is the process of deciding and communicating how an organization wants its market to think and feel about a product or service.

This third and final step is contained in what's known as the segmenting, targeting, and positioning model, the STP model. With the STP model, a company segments the market, selects the target market, and positions its products and services in the existing marketplace (see Figure 5.12). In their book *Positioning: The Battle for Your Mind*, marketing gurus Al Ries and Jack Trout write, "The basic approach of positioning is not to create something new and different, but to manipulate what's already up there in the mind" (Ries & Trout, 2001).



Figure 5.12 The STP Model (CC BY 4.0; Rice University & OpenStax)

The STP model helps identify your most valuable customers and develop products and marketing messages targeted specifically toward those customers. This allows you to interact with each market segment in a more meaningful way by personalizing your messages (and hopefully selling more of your product!).

For example, Marriott International owns several different hotel chains that target specific consumer groups:

- Courtyard by Marriott focuses on over-the-road travelers who aren't looking for luxury and all the amenities; they just want a basic, clean hotel in which to stay during their trip.
- Ritz-Carlton hotels are by their nature more luxurious and target those travelers who don't mind paying a premium price for more luxury and amenities.
- Marriott ExecuStay hotels are aimed at professionals who need a longer-term place to stay (i.e., an extended stay hotel).

Since these target groups are seeking vastly different things from a hotel stay, Marriott tailors its marketing messages (and hotels) to appeal to the unique wants and needs of each specific group (Marriott International, 2022).

As you can see, in this last step of the STP process, you want first to identify how you can most effectively position your product to target the customer segments that you've determined to be most valuable and then tailor the marketing mix that will be most effective in reaching them.

Approaches to Product Positioning

There are two main types of product positioning in marketing: head-to-head and differentiation. Let's take a look at both.

Head-to-Head Positioning

Head-to-head positioning focuses on comparison. It involves directly competing with competitors on similar product attributes in the same market. For instance, imagine you have a small kiosk in a shopping mall where you serve freshly baked pretzels. If your

kiosk makes different flavors of dough from scratch, and your competitors use only processed frozen dough, you can set your pretzel business apart from your competitors in your customers' minds by emphasizing that selling point.

A classic example is when Avis (the car rental company) launched an advertising campaign that went head-to-head with Hertz, the market leader. Avis made a point of comparing itself to Hertz and made its position in the market a selling point using the slogan "When you're only No. 2, you try harder. Or else." This campaign positioned Avis as a direct competitor of Hertz and also did something unique: it highlighted its underdog status, turning it from a liability into an asset. The results? Before the ads, Avis was losing $3.2 million a year; after the ads, Avis improved its performance and earned $1.2 million. Remarkably, that was the first time in over a decade that Avis had been profitable (Stevenson, 2013).

Link to Learning: Example of Head-to-Head Positioning

Another good example of head-to-head positioning is Wendy's, which launched an advertising campaign a few years ago saying that its beef is fresh, never frozen, versus its competitors, particularly McDonald's. Check out this Wendy's Super Bowl commercial from 2018 where it goes head-to-head with McDonald's.



Differentiation Positioning

Differentiation positioning is all about emphasizing your product or service's unique qualities vis-à-vis the competition. Similar to head-to-head positioning, you'll focus on your offerings and attempt to convince customers to buy your products or services instead of those of the competition. However, unlike head-to-head positioning, instead of competing in the same market, you'll attempt to identify new markets and seek out customers who may be interested in your offerings because of those unique qualities you've identified (Gartenstein, 2019). Common differentiation strategies are intended to draw consumers' attention to the value, quality, or uniqueness of your offering.

For instance, Curves, the largest women's fitness franchise in the world, succeeded by offering a fitness alternative to both home-based exercise routines and traditional health clubs. The experience of a Curves facility was entirely different from that of a typical health club. Instead of machines arranged in rows facing a TV, Curves arranged its machines in a circle to facilitate interaction among members. There were few (if any) mirrors and no men staring. The result was that Curves did not compete head-to-head with other health and exercise concepts; rather, it created new demand (Kim & Mauborgne, 2022).

Positioning Statements

In your other college courses, you may have heard terms such as *vision statement* and *mission statement*. We're going to add a third term to your vocabulary—*positioning statement*. Essentially, a positioning statement briefly describes your brand, product, service, and target market. Not only does it define how your brand meets the customer's needs, but it also tries to clarify why it does so

better than your competition. It answers the question, “What experience do you want your customers to have with this product or service?”

Templates for writing your positioning statement abound. Here are just a few examples:

- [Your brand] provides [your offering/benefit that makes you better than competitors] for [your customers] who [customer needs] because [the reason why your customers should believe you are better than competitors] (Tow, 2019).
- For [target audience], [brand name] is the [your market] that delivers [your points of differentiation] so they can [end benefit] because [your evidence] (SharkByte, Inc., 2021).

Now let’s take a look at some examples of positioning statements for companies with which you’re likely familiar so that you can see these templates in action:

- Amazon: “For consumers who want to purchase a wide range of products online with quick delivery, Amazon provides a one-stop online shopping site. Amazon sets itself apart from other online retailers with its customer obsession, passion for innovation, and commitment to operational excellence" (SharkByte, Inc., 2021).
- Apple: “For individuals who want the best personal computer or mobile device, Apple leads the technology with the most innovative products. Apple emphasizes technological research and advancement and takes an innovative approach to business best practices—it considers the impact our products and processes have on its customers and the planet" (SharkByte, Inc., 2021).
- McDonald’s: “For individuals looking for a quick-service restaurant with an exceptional customer experience, McDonald’s is a leader in the fast-food industry, with friendly service and consistency across thousands of convenient locations. McDonald’s dedication to improving operations and customer satisfaction sets it apart from other fast-food restaurants" (SharkByte, Inc., 2021).
- Coca-Cola: “For individuals looking for high-quality beverages, Coca-Cola offers a wide range of the most refreshing options—each creates a positive experience for customers when they enjoy a Coca-Cola brand drink. Unlike other beverage options, Coca-Cola products inspire happiness and make a positive difference in customers’ lives, and the brand is intensely focused on the needs of consumers and customers" (Hart, 2023).

Perceptual Positioning Maps and How They Are Used

A perceptual map is a visual diagram that shows how the average target market consumer perceives your product versus those of your competitors (Market Segmentation Study Guide, 2023).

A perceptual map uses two determinant attributes on a graph. Determinant attributes are those attributes that a customer uses in making their purchase decision. In other words, what you do believe consumers’ “hot buttons” are concerning your product or service offering? You’ve got a vast array of determinant attributes to use. You could use price versus quality, sugar versus protein, or any number of other attributes. The bottom line is that these attributes should reflect what customers are looking for in the product or service.

Once you’ve established the determinant attributes, you plot your product offering onto the map. Let’s imagine that your company is getting ready to introduce a new nutritional drink for seniors. You might start out with determinant attributes such as high/low sugar and high/low protein (although you could use other determinant attributes such as price, taste, etc.). Step one of your perceptual map might look something like Figure 5.13.

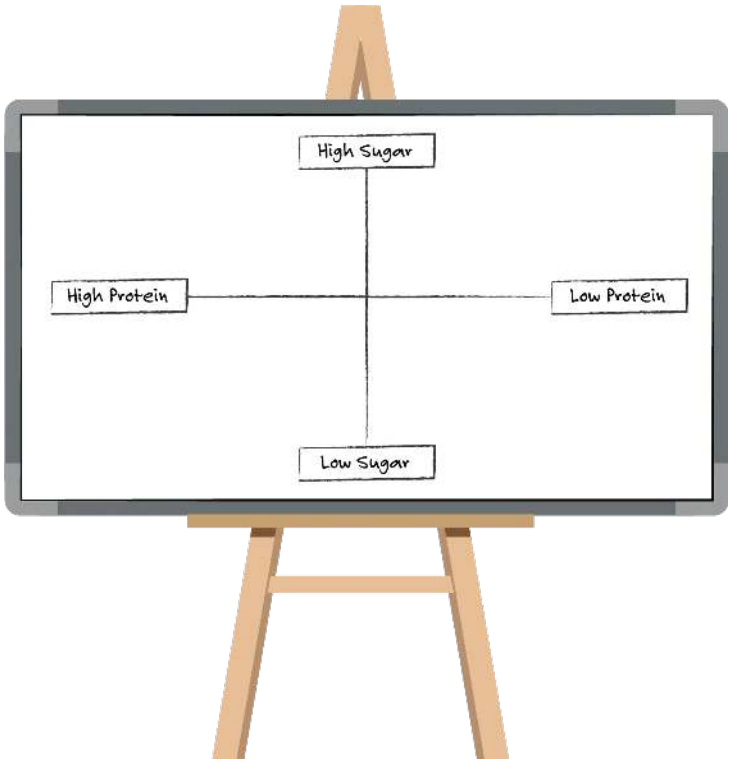


Figure 5.13 Perceptual Map Skeleton (CC BY 4.0; Rice University & OpenStax)

Now it's time to map both your offering and the competitors' offerings on the perceptual map. The simple combination of these two scores places the product offering on the map. It's not necessary to list every single competitor on this perceptual map, but you should try for a list of at least 5 to 10 competitors.

Once you've mapped your competitors' offerings on the perceptual map, it may look something like Figure 5.14 (although you would have brand names in the circles instead of "Brand A," "Brand B," etc.).

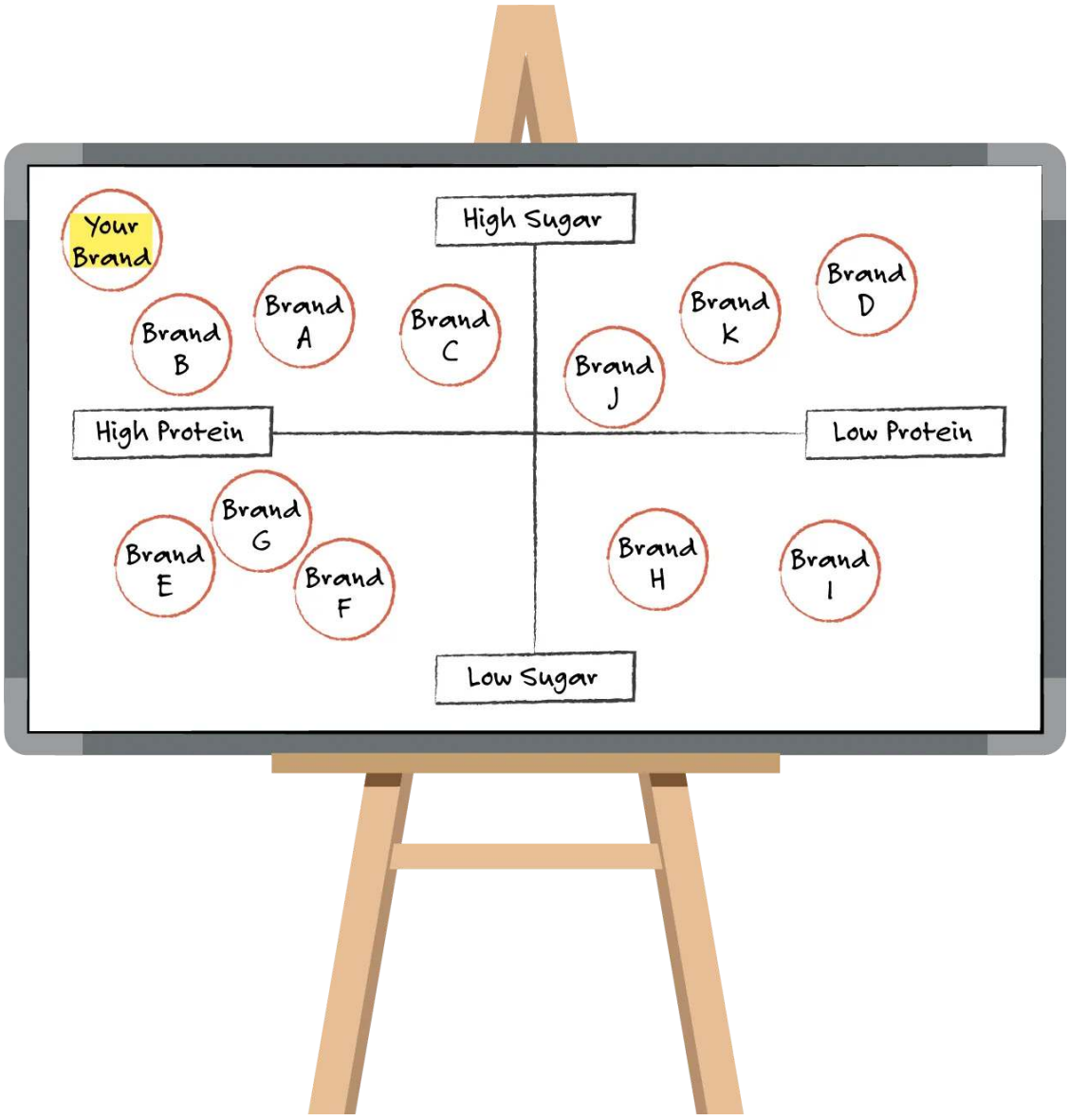


Figure 5.14 Sample Perceptual Map (CC BY 4.0; Rice University & OpenStax)

Once you have developed the perceptual map, you will have a clearer idea of where your product or service offering stands vis-à-vis your competition. You will look at which brands occupy the same space as your offering (or a nearly identical space) based on consumer attitudes. Here are some things to look for on your perceptual map:

- Do consumer attitudes toward your offering align with what you want them to think about it?
- Do consumer attitudes toward your competitors' offerings align with what you thought consumers would think about them?
- Look at the map closely and determine which of your competitors' offerings consumers perceive as being closest to yours.
- Perceptual maps are also an opportunity to determine if there are any holes or gaps in the map. This may signal a potential for new offerings (Hausman, 2020).

Some other things to think about once you've completed your perceptual map:

- If consumer attitudes toward your offering aren't what you expected, it may be necessary to change your marketing actions to correct or modify these consumers' attitudes.
- Let's assume for a minute that consumers view your competitors' offerings as similar to yours. If this is the case, you may want to think about ways to make your offering stand out from the competition rather than going head-to-head with competitors.

- If there are gaps in the map that you think you can fill based on your company's capabilities, you may want to consider introducing a new offering or moving your offering into an unfilled position by modifying its features and attributes (Hausman, 2020).

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Which of the following BEST describes a positioning statement?

a. It is a brief description of your offering, how it meets the needs of a consumer, and why it is superior to your competitor's offerings.
b. It sets forth the group(s) of people with shared characteristics you've identified as potential customers for your products.
c. It defines where your offering fits in the marketplace and why it is better than competitors'.
d. It is a visual tool designed to demonstrate the perception of your offerings by the average target market consumer vis-à-vis your competitors' offerings.

2.

The STP process is an acronym for _____.

a. segmentation, targeting, and positioning
b. screening, targeting, and promotion
c. sampling, test marketing, and publicity
d. segmentation, training, and promotion

3.

Build-A-Bear puts a twist on buying cuddly toys by providing consumers with the ability to modify and personalize their toys. What type of positioning strategy did Build-A-Bear use?

a. Undifferentiated positioning
b. Differentiated positioning
c. Head-to-head positioning
d. Niche positioning

4.

When Artesha is on the road for her job and wants some fast food for lunch, she is looking for speed of service, value, and restaurant cleanliness. The factors would be referred to as _____.

a. her buyer persona
b. a perceptual map
c. her determinant attributes
d. a positioning statement

5.

A visual technique designed to show how the average target market consumer perceives the positioning of competing products in the marketplace is known as _____.

a. a positioning statement
b. head-to-head positioning
c. differentiation positioning
d. a perceptual map

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5.8: Ethical Concerns and Target Marketing

Learning Objectives

By the end of this section, you will be able to

- Discuss the ethical implications of target market selection.
- Provide an example of a company that displays ethics in target marketing.

Ethical Implications of Target Market Selection

To understand unethical target marketing, let's first review the notion of ethics in this realm. Ethics is the systematic study of morality—what people commonly refer to as "morals." The American Marketing Association (AMA) has a clear Statement of Ethics, and marketers are expected to conform to this ethical code. Before examining the issue of ethical target marketing, let's first review the general notion of ethics as it applies to marketing and other business disciplines.

Individuals and organizations choose to act morally—or immorally—when faced with a moral dilemma. The decision of whether to behave in a moral way or an immoral one has serious implications for oneself, for other individuals, and for society as a whole. The bottom line is that morally responsible, ethical marketers both sympathize with and empathize with consumers and their legitimate needs and wants. However, there are moral issues regarding who is targeted and with what purpose. To illustrate these points, let's review some examples of target marketing tactics that can reasonably be considered immoral or unethical.

Ethnic and Racial Profiling

Earlier in this chapter, we used the example of a firm advertising woodworking equipment in specialty magazines rather than general interest magazines to stretch its limited advertising dollars. Do-it-yourself, amateur woodworkers, or hobbyists would be considered an affinity audience to the firm—that group of potential customers who have interests or hobbies in common. That's the positive aspect of target marketing.

However, there's a negative aspect to targeting affinity audiences as well. Over the past few years, Facebook has been criticized for potential discrimination on its ad platform by excluding users who have been classified into certain racial or ethnic affinity groups. As a matter of fact, Facebook was sued by the U.S. Department of Housing and Urban Development because its algorithms allowed advertisers to purposely target their ads by race, gender, and religion, potentially violating federal laws that prevent discrimination in ads for jobs, housing, and credit (Hao, 2019).

Facebook's algorithm and machine learning allowed advertisers to purposely target their ads by race, gender, and religion. In itself, trying to reach an affinity audience through advertising isn't illegal. The problem arises because Facebook's platform allowed advertisers to exclude users based on that algorithm. For example, with Facebook's "ethnic affinity" marketing product, the company can exclude users by race or ethnicity (Noble & Roberts, 2016).

Children and Teens

According to Statista, there are approximately 73 million children in the United States between the ages of 0 and 17 (Korhonen, 2023). That huge target market can be extraordinarily lucrative for a marketer. Accordingly, it makes sense to target this demographic because of its potential value.

However, there are inherent ethical issues involved in marketing to children, including distinguishing intent, gender stereotypes, violence, and obesity. Let's first consider distinguishing intent. According to the American Psychological Association (APA), children under the age of 7 or 8 can't discern the "persuasive intent" of advertising. In other words, they don't realize that the marketing message is made to sell something to them. Instead, children tend to accept the content at face value and believe that it's true, accurate, fair, and unbiased. This lack of distinguishing intent can exploit children because it takes advantage of their inability to make sound, calculated decisions about a product or service based on the available information (Paul, 2016).

Now, let's consider gender stereotypes. At approximately age 2, children become conscious of the physical differences between boys and girls, and according to the Campaign for a Commercial-Free Childhood (CCFC), gender-stereotyped messages can interfere with that process. Consider the number of gender-stereotyped toys on the market today (or go to the toy section of any

big-box store). For example, there are approximately 40,000 Disney Princess items on the market today, typically aimed at girls, whereas toys such as Transformers are typically marketed to boys (14ideas, 2017).

Violence is still another ethical issue to consider. Research indicates that more than half of TV shows and even some commercials (particularly those for video games) contain violence, and the concern is that watching violence may desensitize youth to it and may even suggest to youngsters that violence is an effective way to settle conflicts (Giuffrida, 2022).

Another ethical issue is childhood obesity. According to the Centers for Disease Control and Prevention (CDC), childhood obesity has "more than tripled since the 1970s," and it's estimated that one in five school-aged children is obese (Centers for Disease Control and Prevention, 2022). Yet watch the commercials on children's TV shows, and you'll find that they are almost completely dominated by unhealthy food products such as candy, sugary cereal, and snacks. To their credit, some forward-thinking companies have made it a practice not to advertise to children under 12 because of the association with childhood obesity. For instance, according to the Council of Better Business Bureaus, Brach's, Lemonhead, Ghirardelli, Jelly Belly, PEEPS, Mike and Ike, and Welch's Fruit Snacks avoid advertising to children under 12 (14ideas, 2017).

Let's examine still another societal problem—vaping. According to recent studies, approximately four million students admit to vaping, an increase of over two million users. One of the major players in the industry is Juul, which has been criticized for targeting adolescents with colorful packaging; flavors such as mint, crème, and mango; and a USB flash drive design that made the product small and easy to conceal in a backpack, pocket, or even a hoodie (WebMD, 2022). The problem has become so pervasive with young people that in June of 2022, the U.S. Food and Drug Administration was poised to issue an order removing Juul Labs vaping products from the market (Alltucker, 2022).

Marketing to the Elderly

Older adults are also often exploited by target marketers. Older adults often have fixed incomes along with health problems, and this has made them a popular target for products that give "assurances" of good health and affordability. The most common instances of bad ethics involve prescription drug targeting. Misleading statements about product efficacy are rampant, whether it's for a prominent drug manufacturer or a company that markets "natural" or "organic" products. The COVID-19 pandemic has seen this problem emerge in full force, with many brands touting a "cure-all" to alleviate the virus. The bottom line is that elderly audiences may make questionable purchasing decisions if they believe that not taking action may put their health at risk (Blue Laser Digital, 2021).

Low-Income Targeting

Low-income earners tend to be more susceptible to ads that promise a better way of life, such as high APR (annual percentage rate) credit cards and multilevel marketing schemes. Targeting low-income audiences can threaten their safety and ultimately have dire legal ramifications (Blue Laser Digital, 2021).

Low-income earners can also be wrongfully excluded from the market if companies curtail or fail to enable consumption of products because they "assume" the consumers cannot afford the product(s) at the specified price.

Companies with a Conscience: Subway



Figure 5.15 There are numerous ways to target markets, and Subway has chosen what many would call an ethical strategy because it focuses on offering families healthy options, unlike some of its competitors. (credit: “Mmm... Sammich” by jeffreyw/flickr, CC BY 2.0)

We’ve just read about some of the ways that children are targeted in negative or unhealthy ways, so let’s take a look at one company that tried to get it right, Subway (see Figure 5.15).

Back in 2014, Subway aligned itself with then–First Lady Michelle Obama’s Let’s Move! initiative. The company vowed to spend $41 million over a 3-year period to promote a healthy eating program aimed specifically toward children. The ad campaign bore the slogan “Playtime: Powered by Veggies.”

But Subway didn’t stop there. The company also teamed up with the Partnership for a Healthier America (PHA), a nonprofit organization that works with the private sector to help advance the goals of Mrs. Obama’s Let’s Move! initiative.

Suzanne Greco, vice president of operations for Subway, stated, “From a sign on each restaurant’s door that says ‘Playtime Powered by Veggies’ to a video collaboration with Disney’s The Muppets, [Subway] will build upon our ongoing efforts to create better choices for families" (Holloway, 2014).

Watch this video on the partnership between Subway and the Let’s Move! initiative.



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5.9: Chapter Summary

In this chapter, market segmentation is defined, and the differences between segmenting B2C, B2B, and international markets are explored. Segmentation, targeting, and positioning are the major elements of a customer-driven marketing strategy. Smart marketers know they can’t reach and serve every buyer, so they approach the broader market with tools that help them identify, select, and position their products for consumers who are most likely to need the company’s products and services.

Better understanding B2C or B2B markets also helps marketers better understand unmet needs, assisting in developing new products and services. Targeted marketing, top-notch customer service, and new product developments based on customer needs result in customer experiences that successfully reinforce brand loyalty.

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5.10: Key Terms

ADAMS | the essential factors in effective market segmentation—accessible, differentiable, actionable, measurable, and substantial

affinity audience | a group of potential customers who have interests or hobbies in common

behavioral segmentation | method of grouping customers by their behavior patterns or interactions with a brand

buyer persona | semi-fictional representation of an organization's ideal customers based on data and research

concentrated marketing | marketing segmentation strategy in which the firm concentrates its efforts and resources on serving one segment of the market

demographic segmentation | grouping customers and potential customers together by focusing on certain traits such as age, gender, income, occupation, and family status

determinant attributes | those attributes of a product or service that consumers rely upon when making a purchase decision

differentiated marketing | marketing strategy that involves creating marketing campaigns that appeal to two or more different target audiences, demographics, or marketing segments

differentiation positioning | product/service positioning based on the differentiating characteristics or qualities that make an organization better than its competitors in the mind of the target audience

firmographics | a grouping of B2B customers based on shared company attributes; includes five categories: industry, location, size, legal structure, and performance

geographic segmentation | marketing strategy used to target products or services at people who live in or shop at a particular location

head-to-head positioning | directly competing with competitors on similar product attributes in the same market

market segmentation | the process of dividing a broad consumer or business market into subgroups based on shared characteristics

micromarketing | marketing strategy used on a targeted group of customers in a niche market

multi-segment marketing | marketing strategy in which the firm targets several different market segments simultaneously

needs-based segmentation | dividing the market up into smaller groups of people who have approximately the same needs

perceptual map | visual depiction of how target customers view and feel about a given brand or product

positioning statement | short description of an organization's target market(s) and the product(s) provided to them

product positioning | the process of deciding and communicating how an organization wants its market to think and feel about a product or service

psychographic segmentation | dividing consumers into subgroups based on shared psychological characteristics, including beliefs, motivations, and priorities

STP model | three-step marketing framework in which an organization segments the market, selects target market(s), and positions its products or services

target market | group of people with some shared characteristics that a company has identified as potential customers for its products

technographic segmentation | organizing B2B prospects by their technology ownership and usage

undifferentiated marketing | also called mass marketing, a strategy that entails creating one message for an entire audience

value-based segmentation | evaluating groups of customers in terms of the revenue they generate and the costs of establishing and maintaining relationships with them

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5.11: Applied Marketing Knowledge- Discussion Questions

1. Somewhat like the cola wars of the 1980s, quick-service food chains are engaging in chicken wars. List and discuss at least two ways Chick-fil-A, Popeye's, and Slim Chickens have differentiated and positioned their products as they fight for customers.
2. Why would a local hair salon choose to use geographic segmentation variables and a narrow, concentrated marketing strategy rather than psychographic, demographic, or behavioral variables plus undifferentiated, differentiated, or micromarketing strategies? Might the salon be more successful at reaching its target audience through multi-segment marketing?
3. Describe the major elements of a positioning statement. Which words in the following Walt Disney World positioning statement —"For the young and young-at-heart, Walt Disney World is the theme park that best delivers on an immersive and magical experience because Walt Disney World, and only Walt Disney World, connects you to the characters and worlds you most desire"—illustrate what Disney World promises customers and why it delivers on this promise better than competitors in the entertainment industry?
4. Have you ever watched cartoons? If so, have you seen content that you would consider unethical targeting by advertisers? Common examples of ethical lapses include ethnic and racial profiling, promoting gender stereotypes, depicting violence, and encouraging child obesity.

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5.12: Critical Thinking Exercises

1. Mountain Dew was introduced in 1940 and marketed as “moonshine,” complete with Willy the Hillbilly proclaiming “It’ll tickle yore innards!” Since PepsiCo acquired the brand in the 1960s, Mountain Dew has cycled through new looks, logos, slogans, packaging, flavors, and brand personalities now connected with speed and velocity rather than soda brewed in a whiskey still. Research Mountain Dew’s history and consider this question: How has Mountain Dew steadily moved away from other competitors in the soft drink industry in its positioning efforts, and do you believe this movement has grown consumers’ brand loyalty?
2. The three-step STP model has proven successful in stepping systematically through the target market selection process. How has your college proceeded from segmentation to targeting to positioning effectively? Offer examples of each step and develop a perceptual map showing how the average high school student may perceive your college’s attributes versus its competitors’.
3. Why might candy companies such as Lemonhead, Ghirardelli, Jelly Belly, PEEPS, Mike and Ike, and Welch’s Fruit Snacks pledge not to advertise to children under 12? Does this decision also send a message to parents?

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5.13: Building Your Personal Brand

There are numerous examples of successful personal brands. For good examples, read this article from the Webflow blog, which lists 18 of the best personal brand examples in 2024. Using what you learned in this chapter about marketing to target markets and using the inspiration and knowledge gained from this article, write the opening page of your website. Keep in mind the things shared in the article on what made the personal brands stand out. Know your target market so you can craft a message that will appeal to them.

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5.14: What Do Marketers Do?

Utilize LinkedIn to find two sales managers in your geographic area and invite them to connect with you. Try using what you now know about segmentation, targeting, and positioning to consider industries you'd like to work in, where they might be located, and how you can make your resume appealing to them. Can you craft a compelling message that encourages sales managers to connect with you? Once linked, "interview" at least one sales professional and ask questions about what they enjoy most and least about their sales careers.

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5.15: Closing Company Case

Travelers Point Distillery

In early 2000, several friends got together to tell stories and drink bourbon. It was obvious that friends and stories come together with good bourbon. The best stories included the rich family history of Master Distiller Mel Lytton.

Dating back to the 1880s and into Prohibition, Mel's great-grandfather distilled bourbon in rural Virginia. Having grown up in a bourbon family, Mel not only could detect all the subtle flavors of a great bourbon, but he had the family recipe that had been passed down through the generations. And Mel knew how to distill it.

Mel had more stories than most. Having mastered the art of just about everything he set out to do, Mel was a stone mason, a blacksmith, and a carpenter skilled at woodworking. As Mel talked about the bourbon he was tasting and told stories of his family distilling in the mountains and backwoods of Virginia, an idea was born. The friends decided they would love to get into the business of distilling bourbon.

Bourbon is a truly American drink. It is generally aged in oak barrels and made with grain, primarily corn. Bourbon can range in price from thousands of dollars to $40–50 per bottle. In the early 1960s, Congress declared bourbon "America's Native Spirit."

Although traditionally bourbon is mostly consumed by men, it is catching on with women. In fact, bourbon is quickly gaining popularity among those 21 and over. "The Kentucky Bourbon Trail and the Kentucky Bourbon Trail Craft Tour have drawn more than 2.5 million visitors from all 50 states and 25 countries in the last five years and have become leading educational and tourism attractions" (Kentucky Distillers' Association, 2024).

With the growth and popularity of bourbon drinking and collecting, it was clear that there was room in the industry for one more bourbon brand.

Mel's family recipe and his history of distilling made the group of friends confident in their ability to provide a craft or small-batch bourbon that would be equal to if not better than many currently available. They formed the company and found the perfect location to open the distillery—an old granary in the heart of America's farming country in Kirklin, Indiana. The community is uniquely located in the middle of the state, with a major highway passing through the middle of the town. Kirklin truly is the crossroads of America.

With the original group of investors and a few additions, the business was formed. Mel began distilling the bourbon. It was put in barrels and up in the rack room to age. The label, the brand, and the distribution were in the works.

The group determined that some of the best things in life included bourbon and travel. In fact, many of the stories they told over a great glass of bourbon included their many collective travels around the world. The name for their new bourbon was decided—Travelers Point. It wouldn't be long before Travelers Point began marketing its bourbon.

As the company considered its branding and value proposition, the founders knew they wanted to have a unique story of production along with a price point that ranked with some of the premium bourbon brands currently on the market. Travelers Point bourbon would sell for around $45–60 per bottle. This would put it in the ranks of some of the sought-after brands, with a following among die-hard bourbon drinkers (Lytton, 2024).

The difference in Travelers Point is obvious to discerning bourbon drinkers. The bourbon profile is unique, with deep caramel notes and a rich combination of oak and vanilla. Many bourbon drinkers enjoy the hunt for the perfect bourbon. Travelers Point has something special. Finding the market segment that is ready for a new bourbon with a long history will be critical to its marketing success.

For more information about Travelers Point Distillery, check out their website.

Case Questions

1. Based on the price point and branding for Travelers Point bourbon, what is the recommended method the company should use to segment its market?
2. Which target market strategy would you recommend for Travelers Point, and why?
3. What approach to brand positioning do you recommend for Travelers Point? Support your answer.

4. Develop a perceptual map of the bourbon brands currently selling for $40–60 per bottle.

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CHAPTER OVERVIEW

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7.1: In the Spotlight

When you think of LEGO, you may imagine a child building a spaceship or castle, but LEGO wanted to learn more about how children are encouraged or discouraged to play with its bricks. In 2021, LEGO launched a research study of close to 7,000 parents and children aged 6 to 14 in seven countries to determine how gender stereotypes influence play in creative activities.

During this study, LEGO learned that girls are more open to bending gender roles than boys but that parents have learned to stereotype some careers as being gender specific. Additionally, parents are more likely to encourage girls to play dress-up (83% for girls, 17% for boys), dance (81% for girls, 15% for boys), and bake (80% for girls, 20% for boys), while they suggest computer coding (71% for boys, 29% for girls) and sports for boys (76% for boys, 24% for girls). Based on these findings, LEGO initiated its "Ready for Girls" campaign.



Figure 7.1 Marketing research provides companies with data-driven insights that allow for deep understanding of their customers to develop products and services that meet those customers' needs. (credit: modification of work "Workshop: Biodiversity Data Mobilization - Day 3" by Maheva Bagard Laursen/GBIF/flickr, CC BY 2.0)

The data compiled in this study allowed LEGO to take a step forward in helping to break down some gender norms regarding its product. On October 11, 2021, the International Day of the Girl, LEGO announced a new program to encourage girls to show their creativity. "Get the World Ready for Me" was launched with a 10-step guide to collect information about how girls are engaging with LEGO. As a result of this program, LEGO has launched a campaign of stories about how girls are involved with imagination and creativity.

Through this campaign, LEGO identified a way to encourage girls to challenge worldwide views of gender norms (see Figure 7.2). The background necessary for this campaign was researched and used to help the company stand out. For LEGO and many other companies and organizations, research is a competitive advantage (LEGO, 2021).



Figure 7.2 Through marketing research, LEGO was able to gain data-driven insights into gender stereotypes and launch a campaign that encouraged girls to challenge views on gender norms. (credit: “LEGO Shuttle Expedition and City Spaceport Comparison” by Adam Purves (S3ISOR)/flickr, CC BY 2.0)

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7.2: Marketing Research and Big Data

Learning Objectives

By the end of this section, you will be able to

- Define marketing research.
- Explain how marketing information provides an understanding of the customer and the marketplace.
- Explain the role of big data and the marketing information system.

What Is Marketing Research?

Often, people think of marketing as the process of communicating with a target market—sharing messages, products, and value with customers. However, marketers know that understanding customers, learning about their wants and needs, and developing relationships with them are essential for success. Marketing research allows marketers to listen and assess market needs to understand what's missing and how to reduce those gaps from their customers, target markets, and prospective clients. Managers need marketing information to make data-driven decisions rather than assumptions about consumers. In this chapter, we'll investigate the importance of marketing research, some strategies employed in the field, and how to complete the marketing research process.

Marketing research is the work of gathering information and data about customers and markets. Let's look at the definition, its importance, and the influx of big data.

Marketing Research Defined

According to the American Marketing Association (AMA) (2022), marketing research "is the function that links the consumer, customer, and public to the marketer through information." Marketing research presents information gained through various sources as a resource for managers to make data-driven business decisions. Additionally, the AMA states that "marketing research specifies the information required to address these issues, designs the method for collecting information, manages and implements the data collection process, analyzes the results, and communicates the findings and their implications" (American Marketing Association, 2022).

The Importance of Marketing Information

Marketing information, also known as business intelligence, competitive intelligence, or marketing intelligence, is information about the market that helps identify market opportunities. This information helps determine a company's strengths and weaknesses while also evaluating the external environment's opportunities and threats. Ideas generated through the analysis of marketing information support business decision-making from a long-term strategic approach to smaller issues at a tactical level.

Marketing information is essential for a company or organization to stay competitive while meeting the customer's needs. As referenced above, LEGO used marketing research not only to gather information about how children use its product but also how parents felt about opportunities for their children. Universities and colleges use information gathered through marketing research to build next year's recruitment materials by asking students about their perceptions of the previous year's items. Additionally, a fast-food restaurant might analyze the time of day each of its items is more likely to be purchased. Obvious to most, coffee would probably be an item more likely ordered earlier in the day. Other items might not be as evident but could require different preparation times. By accounting for when each of these items is most likely to be ordered, the restaurant can plan its inventory and schedule of employees more efficiently.

Big Data and the Marketing Information System (MIS)

The amount of data currently available is not only vast but is growing at an exponential level every day, which describes the concept of big data. Big data is the countless number of records that continue accumulating faster. Because of the constantly changing data landscape, it's difficult for companies to develop an approach for analyzing it. Big data is often described using the three Vs: volume, velocity, and variety. The amount of data, or volume, is more than we have ever witnessed. Additionally, it is growing fast; the velocity is also ever increasing. We expect that the velocity of data will continue to surge exponentially as more

users contribute to the available data each day. Finally, there is the variety of data that is part of this enormous data set. Because each user contributes to the cache of data available, the diversity of data is just as unique as its creators.

Link to Learning: What Is Big Data?

Big data is massive amounts of data. But what does that mean? Think of all the data a smartphone generates with texts, searches, emails, photos, and other information. Now consider how many smartphone users there are in the world. Watch this video and learn how much data is generated on the internet each day and how it can be classified through the three Vs concept.



“Big data has become one of the most valuable assets held by enterprises, and virtually every large organization is making investments in big data initiatives" (Pratt, 2022). This statement was based on a 2021 NewVantage Partners survey of senior C-level executives at Fortune 1000 companies regarding their perceptions of big data and their utilization of its resources. NewVantage Partners learned that many companies are already pursuing this data, with 96% reporting that their companies have already had success using big data and artificial intelligence programs. Additionally, 99% of the executives surveyed are pursuing either new or existing big data programs. Why are companies so keen to invest in this source? The world is estimated to create approximately 2.5 quintillion bytes of data daily. This vast accumulation of data can be collected through various methods, such as point-of-sale databases, connected devices through the Internet of Things (IoT), third-party marketing research firms, social media, location data from mobile devices, or surveys (Pratt, 2022). Tapping into the resource generators is helpful for companies to understand their customers, employees, or others.

So, who are these data generators? They are everyone, including you and your friends, who post content on social media, engage with web content through streaming services, and share stories through web applications. In addition, businesses are contributing to the massive amount of content available. Extra data (volume) at a faster rate (velocity) and from a more widely diverse set of people (variety) explain why it is called “big” data (Kitchin & McArdle, 2016). So, how do businesses and individuals capitalize on this vast data world?

To utilize and make the most of the availability of business data, businesses use a marketing information system to collect, analyze, and report interesting findings from their companies' internal and external data. This system is an ever-changing content database used to support the company or organization’s marketing efforts. The marketing information system is the collection of data and requires actions taken by marketers to utilize the data saved.

Careers In Marketing: Market Research Analysts

Market research analysts are needed in numerous industries, and according to the U.S. Bureau of Labor and Statistics, the job outlook has a much higher rate of growth than average. Read about the skills needed, typical pay, education requirements, and career outlook in this article, and watch this video about the various types of jobs available as a market research analyst.



Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Anaya is collecting information from a variety of sources to decide where to market her new line of designer scarves. Anaya is conducting _____.

a. market intelligence
b. big data
c. management information system
d. marketing research

2.

The collection of data the company has gathered over time and used to make marketing decisions regularly is called its _____.

a. big data
b. marketing information system
c. marketing research
d. survey data

3.

Ryan and Christie are uploading their recent pictures to Instagram, tagging the photographer and the venue. What is this content adding to?

a. Market intelligence
b. Big data
c. Management information system
d. Marketing research

4.

Which of the following is not a reason marketing research is important for the success of a business?

a. It provides a guarantee of customer satisfaction.
b. It identifies opportunities in the market to explore.

c. It helps to quantify customer perceptions.
d. It uncovers weaknesses within a company.

5.

Which of the following would not be considered marketing research?

a. Analyzing the product purchases of current customers
b. Measuring the number of reactions to a social media post
c. Examining a competitor's database of information
d. Surveying potential employees about why they are interested in working for a company

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7.3: Sources of Marketing Information

Learning Objectives

By the end of this section, you will be able to

- Identify sources of marketing information.
- Describe the different categories of marketing information.

Identify Sources of Marketing Information

Data, as mentioned in the first section of this chapter, comes from a variety of sources. In this section, we'll investigate the sources of important marketing information and how these resources can be accessed to meet the institution's needs. Online resources such as company websites, journal databases, and e-commerce locations could provide valuable resources to someone opening a new business. For instance, if a new product is to be sold, some companies will review competitors' websites to glean information about comparable pricing before setting their prices. The sources identified are closely aligned with the category of information and are described below.

Describe the Different Categories of Marketing Information

Marketing information can be derived from many sources. We will review three types in this section—internal data, external data, and competitive intelligence—and further explain other data types in the next section. External and internal data have unique qualities that make them essential for businesses. Additionally, competitive intelligence refers to specific types of data that must be examined to further the company or organization's continued success and effectiveness.

External Data and Databases

External data is data that originates from outside the organization. External data include information gleaned from customers through a customer service survey or reviews of a competitor's website. Previously, we learned about big data and the volume of daily information available. These data pieces would also be considered external data. Competitive and market intelligence is often gathered through these external sources of material. Data sources can include any interested parties of the business or a competitor's business, social media mentions, news articles, journal publications, and others. The only limitation of collecting external data is financial. Not all sources of information are free, and the time spent to collect these insights is also a valuable commodity, as "time is money." Once external information is collected and made available to those within the institution, it can be considered internal data.

Internal Data and Databases

Critical marketing intelligence can be data already in the company's databases. This data is called internal data and gives the company a historical view of what has worked previously. It also identifies times when the company did not meet its goals. Internal data includes sales, promotional effectiveness, pricing, product launch information, research and development, and logistics information. Examples of internal data include the percentage of coupons redeemed, the sales volume at specific prices, the highest-grossing motion picture for a production company, and even the most missed question on the last unit's marketing exam.

Businesses, organizations, nonprofits, colleges, and universities use these data sources to make more comprehensive day-to-day decisions. A database is a collection of related data. For instance, there are multiple databases at the school you attend—one for current students, one for alumni, and still another for faculty. Within each of these databases, there is information about that specific population. The current student database will list all students enrolled in courses this term, with additional information such as what courses they are enrolled in, any past enrollments, grades earned, major, hometown, and academic advisor's name.

Competitive Intelligence

Marketing research can be conducted on every aspect of business and marketing. Understanding the competition and its strengths and weaknesses through analyzing the industry and competing forces gives a company a competitive edge. Competitive intelligence is the collection of that information from the marketplace. A company's position must be examined to determine if it matches the customers' needs.

This competitive intelligence may be related to marketing mix elements: product, price, distribution, or promotion. Checking prices of competitors' products to make sure a company's pricing is competitive, conducting a promotional audit to verify the reach of the messages, or examining the competitive industry's distribution channels may allow the company to identify a new location and all help to make the company more educated on future decisions. Why do customers choose the competitor over the company's products in a competitive space? Marketing research can come in many forms and helps managers to make data-driven decisions. Once this data is collected, it becomes part of the business or organization's internal data cache.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Which of the following is a source for external information?

a. Sales receipts of your company's most popular product
b. Employee salaries
c. Comments received from a customer service survey
d. Company's website content

2.

Xin wants to determine the best price for a new product. What source of data would be the most appropriate to use?

a. Price of a competitor's products
b. Inventory expenses
c. Journal articles
d. Online news site

3.

Which of the following is not a source of marketing information?

a. Journal articles
b. Social media posts
c. Experiments
d. Marketing information systems

4.

Which of the following would be a good source of competitive intelligence?

a. Experiments
b. Product sales of a company's products
c. Consumer responses to a poll on a company's new products
d. Competitor's website

5.

Critical data that already exists within a company's databases is called _____.

a. big data
b. internal data
c. external data
d. competitive data

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7.4: Steps in a Successful Marketing Research Plan

Learning Objectives

By the end of this section, you will be able to

- Identify and describe the steps in a marketing research plan.
- Discuss the different types of data research.
- Explain how data is analyzed.
- Discuss the importance of effective research reports.

Define the Problem

There are seven steps to a successful marketing research project (see Figure 7.3). Each step will be explained as we investigate how a marketing research project is conducted.

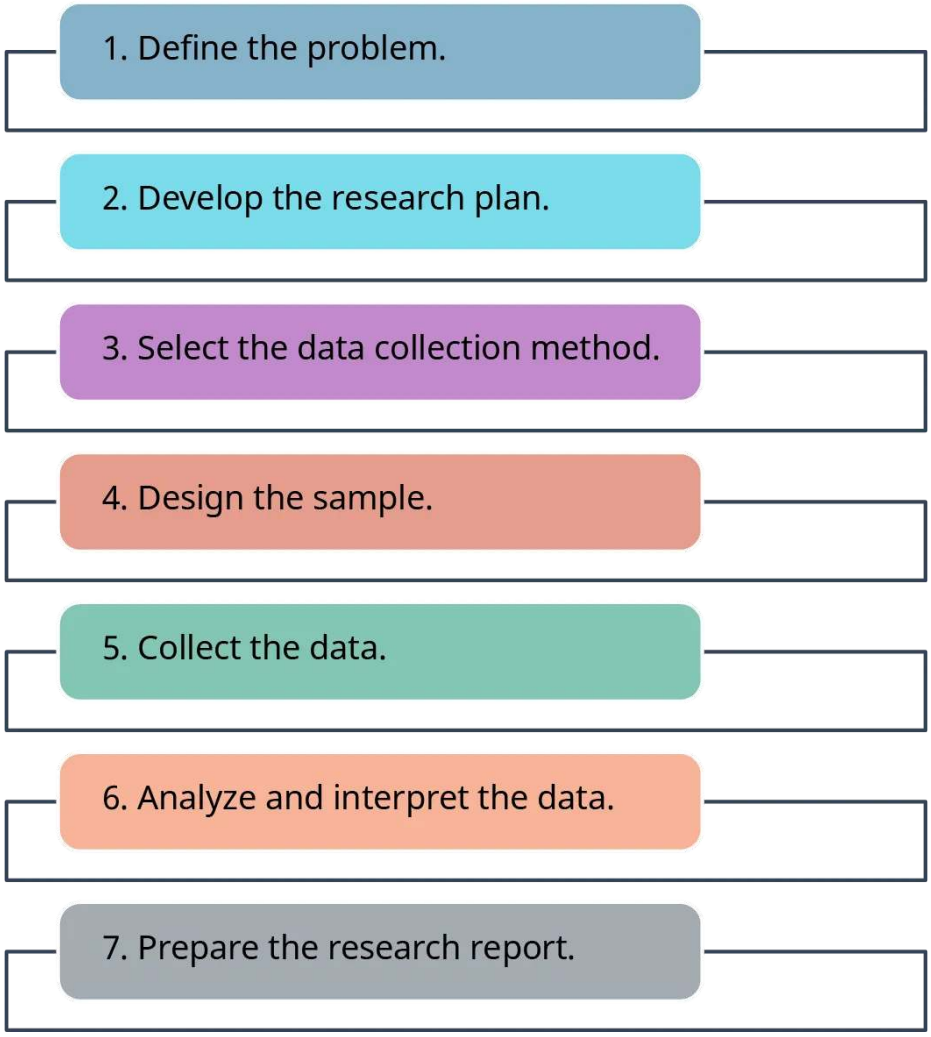


Figure 7.3 The Marketing Research Plan (CC BY 4.0; Rice University & OpenStax)

The first step, defining the problem, is often a realization that more information is needed to make a data-driven decision. Problem definition is the realization that an issue needs to be addressed. An entrepreneur may be interested in opening a small business but must first define the problem to be investigated. A marketing research problem in this example is to discover the community's needs and identify a potentially successful business venture.

Researchers often define a research question or objectives in this first step. Objectives of this research study could include identifying a new business that would be successful in the community in question, determining the size and composition of a target market for the business venture, and collecting any relevant primary and secondary data that would support such a venture. At this point, the definition of the problem may be, “Why are cat owners not buying our new cat toy subscription service?”

Additionally, during this first step, we want to investigate our target population for research. This is similar to a target market, as it is the group that comprises the population of interest for the study. To have a successful research outcome, the researcher should start with an understanding of the problem in the current situational environment.

Develop the Research Plan

Step two is to develop the research plan. What type of research is necessary to meet the established objectives of the first step? How will this data be collected? Additionally, what is the time frame of the research and budget to consider? If you must have information in the next week, a different plan would be implemented than in a situation where several months were allowed. These are issues that a researcher should address to meet the needs identified.

Research is often classified as coming from one of two types of data, primary and secondary. Primary data are unique information collected by the specific researcher with the current project in mind. This type of research doesn’t currently exist until it is pulled together for the project. Primary data collection includes surveys, observations, experiments, and focus group data gathered for the current project.

Secondary data is any research completed for another purpose that can be used to help inform the research process. Secondary data comes in many forms and includes census data, journal articles, previously collected survey or focus group data on related topics, and compiled company data. Secondary data may be internal, such as the company’s sales records for a previous quarter, or external, such as an industry report of all related product sales. Syndicated data, a type of external secondary data, is available through subscription services and is utilized by many marketers. As you can see in Table 7.1, primary and secondary data features are often opposite—the positive aspects of primary data are the negative side of secondary data.

Primary and Secondary Data for Strengths and Weaknesses

	Strengths	Weaknesses
Primary Data	• Can be structured to be exactly what is needed • Under complete control of researchers • Timely, current data	• Expensive to implement • Takes time to compile • May not be generalizable beyond specific research question
Secondary Data	• Generally inexpensive or free • Can be accessed quickly • Available through a variety of sources	• May not match required parameters • Can be outdated • Same data accessible by competitors

Table 7.1 The Strengths and Weaknesses of Primary and Secondary Data

Four research types can be used: exploratory, descriptive, experimental, and ethnographic research designs (see Figure 7.4). Each type has specific formats of data that can be collected. Qualitative research can be shared through words, descriptions, and open-ended comments. Qualitative data gives context but cannot be reduced to a statistic. Qualitative data examples are categorical and include case studies, diary accounts, interviews, focus groups, and open-ended surveys. By comparison, quantitative data can be reduced to the number of responses. The number of responses to each answer on a multiple-choice question is quantitative data. Quantitative data is numerical and includes information such as age, income, group size, and height.

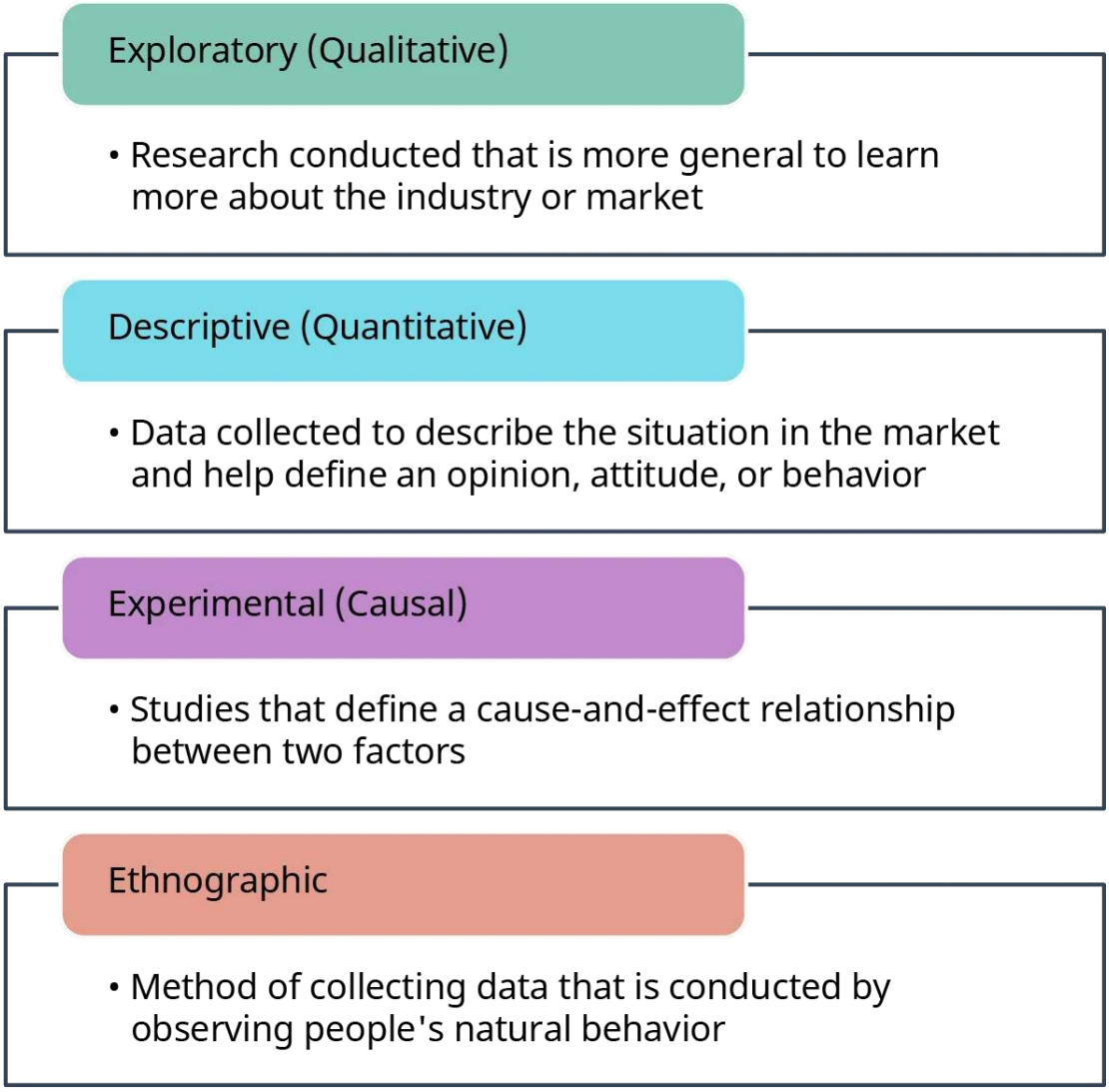


Figure 7.4 Four Research Types (CC BY 4.0; Rice University & OpenStax)

Exploratory research is usually used when additional general information is desired about a topic. When in the initial steps of a new project, understanding the landscape is essential, so exploratory research helps the researcher to learn more about the general nature of the industry. Exploratory research can be collected through focus groups, interviews, and review of secondary data. When examining an exploratory research design, the best use is when your company hopes to collect data that is generally qualitative in nature (Streefkerk, 2021).

For instance, if a company is considering a new service for registered users but is not quite sure how well the new service will be received or wants to clarify exactly how customers may use a future service, the company can host a focus group. Focus groups and interviews will be examined later in the chapter. The insights collected during the focus group can assist the company when designing the service, help inform promotional campaign options, and verify that the service is going to be a viable option for the company.

Descriptive research design takes a bigger step into data collection through primary research complemented by secondary data. Descriptive research helps explain the market situation and define an “opinion, attitude, or behavior” of a group of consumers, employees, or other interested groups (SurveyMonkey, 2021). The most common method of deploying a descriptive research design is through a survey. Several types of surveys will be defined later in this chapter. Descriptive data is quantitative in nature, meaning the data can be distilled into a statistic, such as in a table or chart.

Again, descriptive data can help explain the current situation. In the opening example of LEGO, the company wanted to describe the situation regarding children’s use of its product. To gather a large group of opinions, a survey was created. The data collected

through this survey allowed the company to measure the existing perceptions of parents so that alterations could be made to plans for the company.

Experimental research, also known as causal research, helps to define a cause-and-effect relationship between two or more factors. This type of research goes beyond a correlation to determine which feature caused the reaction. Researchers generally use some type of experimental design to determine a causal relationship. An example is A/B testing, where one group of research participants, group A, is exposed to one treatment and then compared with the group B participants, who experience a different situation. An example might be showing two different television commercials to a panel of consumers and then measuring the difference in perception of the product. Another example would be to have two separate packaging options available in different markets. This research would answer the question, “Does one design sell better than the other?” Comparing that to the sales in each market would be part of a causal research study (SurveyMonkey, 2021).

The final method of collecting data is through an ethnographic design. Ethnographic research is conducted in the field by watching people interact in their natural environment. For marketing research, ethnographic designs help to identify how a product is used, what actions are included in a selection, or how the consumer interacts with the product (Anderson, 2009).

An example of ethnographic research would be to observe how a consumer uses a particular product, such as baking soda. Although many people buy baking soda, its uses are vast. So are they using it as a refrigerator deodorizer, a toothpaste, a polish for a belt buckle, or an ingredient in a cake?

Select the Data Collection Method

Data collection is the systematic gathering of information that addresses the identified problem. What is the best method to do that? Picking the right method of collecting data requires that the researcher understand the target population and the design picked in the previous step. There is no perfect method; each method has both advantages and disadvantages, so, to pick the best option, the researcher must understand the target population and the research objectives.

Sometimes the data desired are best collected by watching the actions of consumers. For instance, how many cars pass a specific billboard in a day? What website led a potential customer to the company’s website? When are consumers most likely to use the snack vending machines at work? What time of day has the highest traffic on a social media post? What is the most streamed television program this week? Observational research is the collecting of data based on actions taken by those observed. Many data observations do not require the researched individuals to participate in the data collection effort to be highly valuable. Some observation requires an individual to watch and record the activities of the target population through personal observations.

Unobtrusive observation happens when those being observed aren’t aware that they are being watched. An example of an unobtrusive observation would be watching how shoppers interact with a new stuffed animal display using a one-way mirror. Marketers can identify which products were handled more often while determining which were ignored.

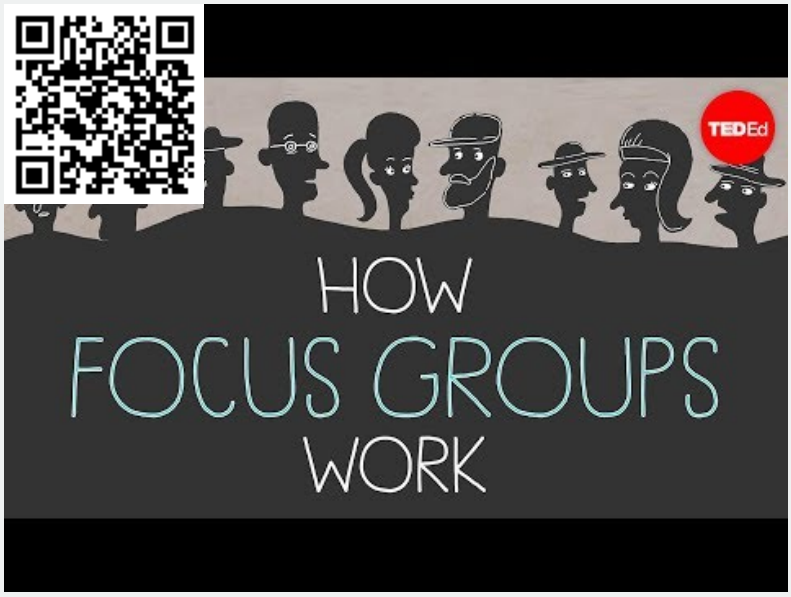
Other methods can use technology to collect the data instead. Instances of mechanical observation include vehicle recorders, which count the number of vehicles that pass a specific location. Computers can also assess the number of shoppers who enter a store, the most popular entry point for train station commuters, or the peak time for cars to park in a parking garage.

When you want to get a more in-depth response from research participants, one method is to complete a one-on-one interview. One-on-one interviews allow the researcher to ask specific questions that match the respondents' unique perspectives, as well as follow-up questions that piggyback on responses that have already been completed. An interview allows the researcher to have a deeper understanding of the respondent's needs, which is another strength of this type of data collection. The downside of personal interviews is that a discussion can be very time-consuming and results in only one respondent’s answers. Therefore, with a large sample of respondents, the interview method may not be the most efficient.

Taking the benefits of an interview and applying them to a small group is the design of a focus group. A focus group is a small number of people who meet the sample requirements, usually 8 to 12. Together, these individuals are asked a series of questions and encouraged to build upon each other’s responses, either by agreeing or disagreeing with the other group members. Focus groups are similar to interviews in that they allow the researcher, through a moderator, to get more detailed information from a small group of potential customers (see Figure 7.5).

Link to Learning: Focus Groups

Focus groups are common for gathering insights into consumer thinking and habits. Companies will use this information to develop or shift their initiatives. The best way to understand a focus group is to watch a few examples or explanations. TED-Ed has this video that explains how focus groups work.



You might be asking when using a focus group or a survey is best. Learn the differences, the pros and cons of each, and the specific types of questions you ask in both situations in this article.

Preparing for a focus group is critical to success. It requires knowing the material and questions while also managing a group of people. Watch this video to learn more about how to prepare for a focus group and the types of things to be aware of.



One advantage of a focus group over individual interviews is that synergy can be generated when a participant builds on another's ideas. Additionally, for the same amount of time, a researcher can hear from multiple respondents instead of just one (QuestionPro, 2022). Of course, as with every data collection method, there are downsides to a focus group as well. Focus groups can potentially be overwhelmed by one or two aggressive personalities, and the format can discourage more reserved individuals from speaking up. Finally, like interviews, the responses in a focus group are qualitative and are difficult to distill into an easy statistic or two.



Figure 7.5 A focus group is a research method for collecting customer data that involves a moderator asking questions of a small group of people who represent the target market. (credit: “Meeting” by UBC Learning Commons/flickr, CC BY 2.0)

Combining a variety of questions on one instrument is called a survey or questionnaire. Collecting primary data is commonly done through surveys due to their versatility. A survey allows the researcher to ask a large group of respondents the same set of questions. Response rates of surveys are calculated by dividing the number of surveys completed by the total number attempted. Surveys are flexible and can collect a variety of quantitative and qualitative data. Questions can include simplified yes or no questions, select all that apply, questions that are on a scale, or a variety of open-ended questions. We will cover four types of surveys (see Table 7.2), each with strengths and weaknesses defined.

Strengths and Weaknesses of Surveys

	Strengths	Weaknesses
Mailed Surveys	• Ability to reach a large population • Convenience of respondent	• Time delays • Expensive
Phone Surveys	• Respondents can ask questions • Collection in real time	• Time intensive • People don’t answer calls from numbers they don’t know
In-Person Surveys	• Respondents can ask questions • Follow-up questions can be asked based on answers	• Time intensive • People avoid talking with strangers
Electronic Surveys	• Less time intensive than other methods • Less expensive	• Identification as spam • Low response rate

Table 7.2 The Four Survey Method Options

Let’s start with mailed surveys—surveys that are sent to potential respondents through a mail service. Mailed surveys used to be more commonly used due to the ability to reach every household. Sometimes, a mailed survey is still the best way to collect data. For example, every 10 years, the United States conducts a population census (see Figure 7.6). The first step in that data collection is to send a survey to every household through the U.S. Postal Service (USPS). The benefit is that respondents can complete and return the survey at their convenience. The downsides of mailed surveys are the expense and the timeliness of responses. A mailed survey requires postage, both when it is sent to the recipient and when it is returned. That, along with the cost of printing, paper, and both sending and return envelopes, adds up quickly. Additionally, physically mailing surveys takes time. One method of reducing cost is to send with bulk-rate postage, which slows down the survey delivery. Also, because of the convenience to the respondent, completed surveys may be returned several weeks after being sent. Finally, some mailed survey data must be manually entered into the analysis software, which can cause delays or issues due to entry errors.

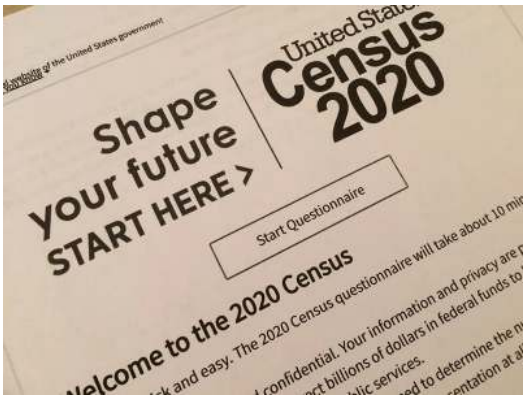


Figure 7.6 A mailed survey, such as the U.S. Census, is a research method for collecting customer data that utilizes the mail, which provides companies with a way to reach many households. (credit: “Census” by KSRE Photo/flickr, CC BY 2.0)

Phone surveys are completed during a phone conversation with the respondent. Although the traditional phone survey requires a data collector to talk with the participant, current technology allows for computer-assisted voice surveys or surveys to be completed by asking the respondent to push a specific button for each potential answer. Phone surveys are time intensive but allow the respondent to ask questions and the surveyor to request additional information or clarification on a question if warranted. Phone surveys require the respondent to complete the survey simultaneously with the collector, which is a limitation as there are restrictions on when phone calls are allowed. According to the Telephone Consumer Protection Act, approved by Congress in 1991, no calls can be made before 8:00 a.m. or after 9:00 p.m. in the recipient’s time zone (National Archives and Records Administration, 2021). Many restrictions are outlined in this original legislation and have been added to since due to ever-changing technology.

In-person surveys are when the respondent and data collector are physically in the same location. In-person surveys allow the respondent to share specific information, ask questions of the surveyor, and follow up on previous answers. With this method, surveys can be collected in various ways: through door-to-door collection, in a public location, or at a person’s workplace. Although in-person surveys are time intensive and require more labor to collect data than some other methods, in some cases it’s the best way to collect the required data. A door-to-door, in-person survey is the follow-up used for the census if respondents do not complete the mailed survey. A downside of in-person surveys is the reluctance of potential respondents to stop their current activity and answer questions. Furthermore, people may not feel comfortable sharing private or personal information during a face-to-face conversation.

Electronic surveys are sent or collected through digital means and is an opportunity that can be added to any of the above methods as well as some new delivery options. Surveys can be sent through email, and respondents can either reply to the email or open a hyperlink to an online survey (see Figure 7.7). Additionally, a letter can be mailed that asks members of the survey sample to log in to a website rather than to return a mailed response. Many marketers now use links, QR codes, or electronic devices to easily connect to a survey. Digitally collected data has the benefit of being less time intensive and is often a more economical way to gather and input responses than more manual methods. A survey that could take months to collect through the mail can be completed digitally within a week.



Board Game Café

Board Games

4. Do you enjoy playing board games?

- ◯ Yes
- ◯ No
- ◯ Prefer not to respond

5. What is your favorite board game?

6. Would you be interested in using a daily one-time fee, pass to use the "library" (which includes board games) at the Board Game Café?

- ◯ Very interested
- ◯ Interested
- ◯ Somewhat interested
- ◯ Not interested
- ◯ Prefer not to respond

Figure 7.7 Online Survey Example (CC BY 4.0; Rice University & OpenStax)

Design the Sample

Although you might want to include every possible person who matches your target market in your research, it's often not feasible, nor is it of value. If you did decide to include everyone, you would be completing a population census. Getting everyone to participate would be time-consuming and highly expensive, so instead, marketers use a sample, whereby a portion of the whole is included in the research. It's similar to the samples you might receive at the grocery store or ice cream shop; it isn't a full serving, but it does give you a good taste of what the whole would be like.

So, how do you know who should be included in the sample? Researchers identify parameters for their studies, called sample frames. A sample frame for one study may be college students who live on campus; for another study, it may be retired people in Dallas, Texas, or small-business owners with fewer than 10 employees. The individual entities within the sampling frame would be

considered a sampling unit. A sampling unit is each respondent who would be considered to match the sample frame established by the research. If a researcher wants businesses to participate in a study, then businesses would be the sampling unit.

The number of sampling units included in the research is the sample size. Many calculations can be conducted to determine the correct sample size. Issues to consider are the population size, the confidence level that the data represents the entire population, the ease of accessing the units in the frame, and the budget allocated for the research.

There are two main categories of samples: probability and nonprobability (see Figure 7.8). Probability samples are those in which every sample member has an identified likelihood of being selected. Several probability sample methods can be utilized. One probability sampling technique is called a simple random sample, where not only does every person have an identified likelihood of being selected to be in the sample, but every person also has an equal chance of exclusion. An example of a simple random sample would be to put the names of all group members into a hat and simply draw out a specific number to be included. A raffle would be a good example of a simple random sample.

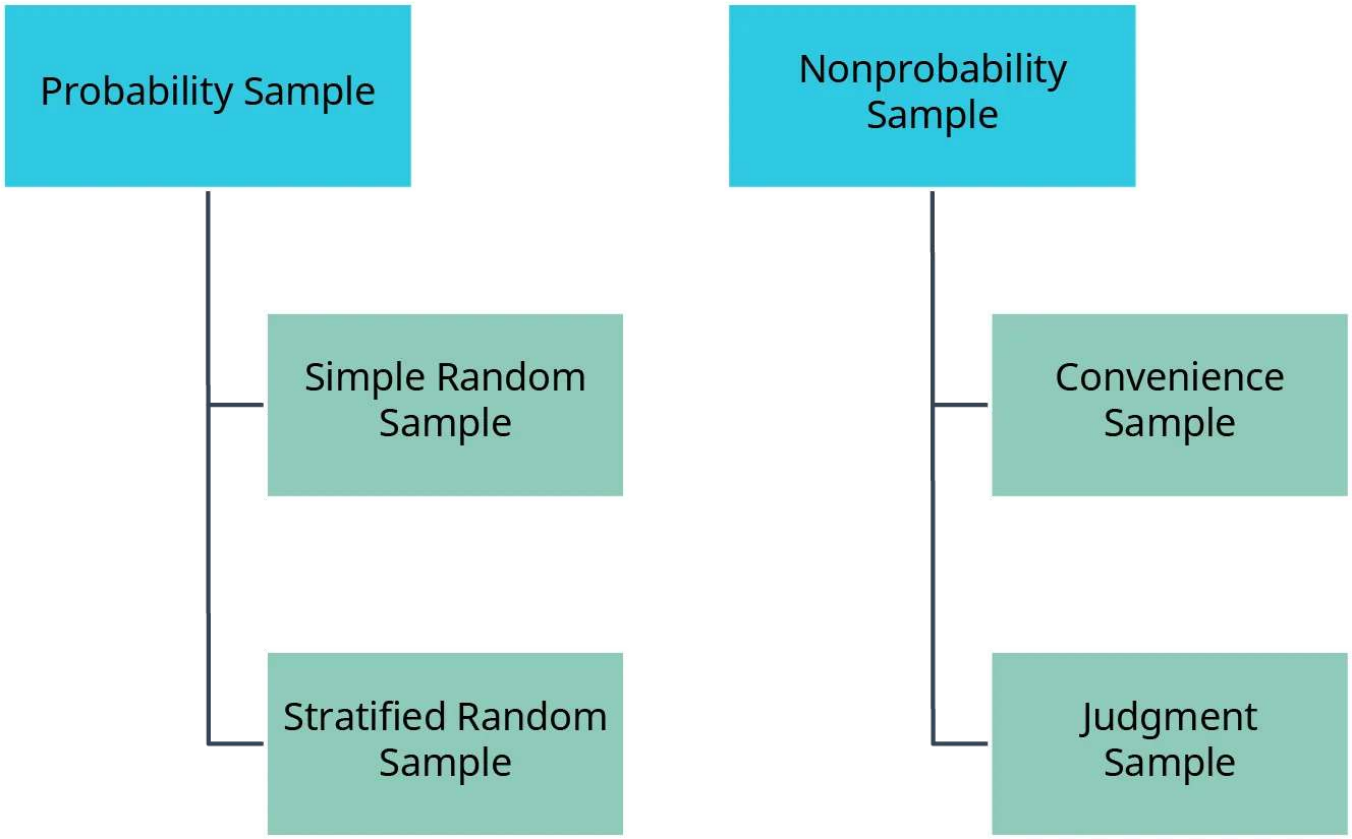


Figure 7.8 Type of Samples (CC BY 4.0; Rice University & OpenStax)

Another probability sample type is a stratified random sample, where the population is divided into groups by category, and then a random sample of each category is selected to participate. For instance, if you were conducting a study of college students from your school and wanted to make sure you had all grade levels included, you might take the names of all students and split them into different groups by grade level—freshman, sophomore, junior, and senior. Then, from those categories, you would draw names out of each of the pools or strata.

A nonprobability sample is a situation in which each potential sample member has an unknown likelihood of being selected for the sample. Research findings from a nonprobability sample cannot be applied beyond the sample. Several examples of nonprobability sampling are available to researchers, and we will look at two more closely: convenience sampling and judgment sampling.

The first nonprobability sampling technique is a convenience sample. Just as it sounds, a convenience sample is when the researcher finds a group through a nonscientific method by conveniently picking potential research participants. An example might be asking other students in a class you are taking to complete a survey that you are doing for a class assignment or passing out surveys at a basketball game or theater performance.

A judgment sample is a type of nonprobability sample that allows the researcher to determine if they believe the individual meets the criteria set for the sample frame to complete the research. For instance, you may be interested in researching mothers, so you sit outside a toy store and ask an individual carrying a baby to participate.

Collect the Data

Now that all the plans have been established, the instrument has been created, and the group of participants has been identified, it is time to start collecting data. As explained earlier in this chapter, data collection is the process of gathering information from a variety of sources that will satisfy the research objectives defined in step one. Data collection can be as simple as sending out an email with a survey link enclosed or as complex as an experiment with hundreds of consumers. The method of collection directly influences the length of this process. Conducting personal interviews or completing an experiment, as previously mentioned, can add weeks or months to the research process, whereas sending out an electronic survey may allow a researcher to collect the necessary data in a few days (Bhandari, 2021).

Analyze and Interpret the Data

Once the data have been collected, they can be analyzed. Data analysis is the distillation of the information into a more understandable and actionable format. The analysis itself can take many forms, from the use of basic statistics to a more comprehensive data visualization process. First, let's discuss some basic statistics that can be used to represent data.

The first is the mean of quantitative data. A mean is often defined as the arithmetic average of values. The formula is

mfrac

A common use of the mean calculation is exam scoring. Say, for example, you have earned the following scores on your marketing exams: 72, 85, 68, and 77. To find the mean, you would add up the four scores for a total of 302. Then, to generate a mean, you would divide that number by the number of exam scores included, which is 4. The mean would be 302 divided by 4 for a mean test score of 75.5. Understanding the mean can help to determine, with one number, the weight of a particular value.

Another commonly used statistic is median. The median is often referred to as the middle number. To generate a median, all the numeric answers are placed in order, and the middle number is the median. Median is a common statistic when identifying the income level of a specific geographic region (Statistics.com, 2021). For instance, the median household income for Albuquerque, New Mexico, between 2015 and 2019 was $52,911 (United States Census Bureau, 2021). In this case, there are just as many people with an income above the amount as there are below.

Mode is another statistic that is used to represent data of all types, as it can be used with quantitative or qualitative data and represents the most frequent answer. Eye color, hair color, and vehicle color can all be presented with a mode statistic. Additionally, some researchers expand on the concept of mode and present the frequency of all responses, not just identifying the most common response. Data such as this can easily be presented in a frequency graph, such as the one in Figure 7.9 (Statistics.com, 2021).

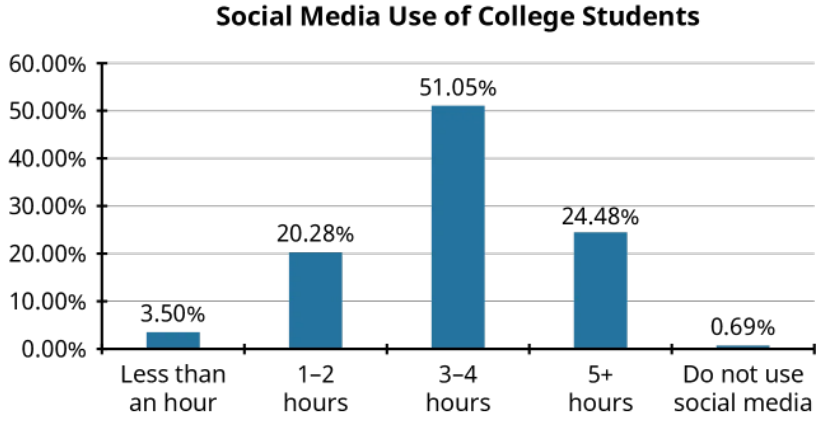


Figure 7.9 Frequency Graph (CC BY 4.0; Rice University & OpenStax)

Additionally, researchers use other analyses to represent the data rather than to present the entirety of each response. For example, maybe the relationship between two values is important to understand. In this case, the researcher may share the data as a cross-

tabulation (see Figure 7.10). Below is the same data as above regarding social media use cross-tabulated with gender—as you can see, the data is more descriptive when you can distinguish between the gender identifiers and how much time is spent per day on social media.

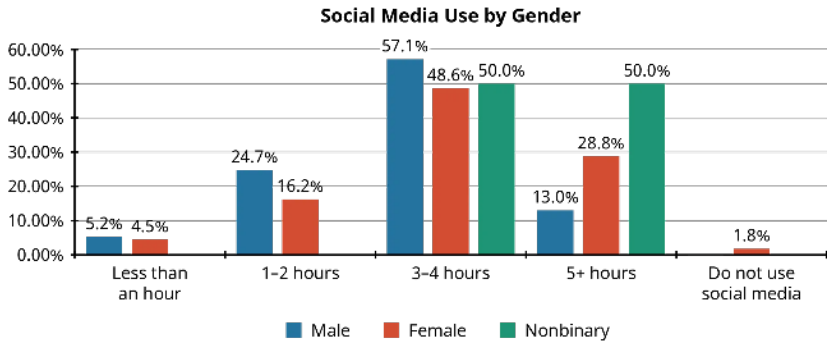


Figure 7.10 Cross-Tabulation (CC BY 4.0; Rice University & OpenStax)

Not all data can be presented in a graphical format given the nature of the information. Sometimes, with qualitative methods of data collection, the responses cannot be distilled into a simple statistic or graph. In that case, quotations, otherwise known as verbatims, can be used. These are direct statements presented by the respondents. Often you will see a verbatim statement when reading a movie or book review. The critic's statements are used in part or in whole to represent their feelings about the newly released item.

Link to Learning: Infographics

As they say, a picture is worth a thousand words. For this reason, research results are often shown in a graphical format in which data can be taken in quickly, called an infographic.

Check out this infographic on what components make for a good infographic. As you can see, a good infographic needs four components: data, design, a story, and the ability to share it with others. Without all four pieces, it is not as valuable a resource as it could be. The ultimate infographic is represented as the intersection of all four.

Infographics are particularly advantageous online. Refer to this infographic on why they are beneficial to use online.

Prepare the Research Report

The marketing research process concludes by sharing the generated data and providing recommendations for future actions. What starts as simple data must be interpreted into an analysis. All information gathered should be conveyed to make decisions for future marketing actions. One item that is often part of the final step is to discuss areas that may have been missed with the current project or any area of further study identified while completing it. Without the final step of the marketing research project, the first six steps are without value. Only after the information is shared through a formal presentation or report can those recommendations be implemented and improvements made. The first six steps are used to generate information, while the last is to initiate action. During this last step is also when an evaluation of the process is conducted. If this research were to be completed again, how would we do it differently? Did the right questions get answered with the survey questions posed to the respondents? Follow-up on some of these key questions can lead to additional research, a different study, or further analysis of data collected.

Methods of Quantifying Marketing Research

One way to share information gained through marketing research is to quantify the research. Quantifying the research means compiling a variety of data into a more easily understood quantity. This is a simple process if you want to know how many people attended a basketball game, but if you want to quantify the number of students who made a positive comment on a questionnaire, it can be a little more complicated. Researchers have a variety of methods to collect and then share these different scores. Below are some of the most common types used in business.

Awareness

Is a customer aware of a product, brand, or company? What is meant by awareness? Awareness in the context of marketing research is when a consumer is familiar with the product, brand, or company. It does not assume that the consumer has tried the product or

has purchased it. Consumers are just aware. That is a measure that many businesses find valuable. There are several ways to measure awareness. For instance, the first type of awareness is unaided awareness. This type of awareness occurs when no product, brand, or company prompts are given. If you were collecting information on fast-food restaurants, you might ask a respondent to list all the fast-food restaurants that serve a chicken sandwich. Aided awareness would be providing a list of products, brands, or companies, and the respondent selects from the list. For instance, if you give a respondent a list of fast-food restaurants and ask them to mark all the locations with a chicken sandwich, you are collecting data through an aided method. Collecting these answers helps a company determine how the business location compares to those of its competitors (SurveyMonkey, 2021).

Customer Satisfaction (CSAT)

Have you ever been asked to complete a survey at the end of a purchase? Many businesses complete research on buying, returning, or other customer service processes. A customer satisfaction score, also known as CSAT, is a measure of how satisfied customers are with the product, brand, or service. A CSAT score is usually on a scale of 0 to 100% (Qualtrics, 2022). But what constitutes a "good" CSAT score? Although what is identified as good can vary by industry, normally anything in the range from 75 to 85% would be considered good. Of course, a number higher than 85 would be considered exceptional (Nicastro, 2021).

Customer Acquisition Cost (CAC) and Customer Effort Score (CES)

Other metrics often used are customer acquisition cost (CAC) and customer effort score (CES). How much does it cost a company to gain customers? That's the purpose of calculating the customer acquisition cost. To calculate the customer acquisition cost, a company would need to total all expenses that were accrued to gain new customers. This would include any advertising, public relations, social media postings, etc. When a total cost is determined, it is divided by the number of new customers gained through this campaign.

The final score to discuss is the customer effort score, also known as a CES. The CES is a "survey used to measure the ease of service experience with an organization" (QuestionPro, 2021). Companies that are easy to work with have a better CES than a company that is notorious for being difficult. An example would be to ask a consumer about the ease of making a purchase online by incorporating a one-question survey after a purchase is confirmed. If a number of responses come back negative or slightly negative, the company will realize that it needs to investigate and develop a more user-friendly process.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Sagar is completing a marketing research project and is at the stage where he must decide who will be sent the survey. What stage of the marketing research plan is Sagar currently on?

a. Defining the problem
b. Developing the research plan
c. Selecting a data collection method
d. Designing the sample

2.

A strength of mailing a survey is that _____.

a. you can send it to all households in an area
b. it is inexpensive
c. responses are automatically loaded into the software
d. the data comes in quickly

3.

Bartlett is considering the different types of data that can be pulled together for a research project. Currently they have collected journal articles, survey data, and syndicated data and completed a focus group. What type(s) of data have they collected?

a. Primary data
b. Secondary data
c. Secondary and primary data
d. Professional data

4.

Which statistic can be used to show how many people responded to a survey question with “strongly agree”?

a. Mean
b. Median
c. Mode
d. Frequency

5.

Why would a researcher want to use a cross-tabulation?

a. It shows how respondents answered two variables in relation to each other and can help determine patterns by different groups of respondents.
b. By presenting the data in the form of a picture, the information is easier for the reader to understand.
c. It is an easy way to see how often one answer is selected by the respondents.
d. This analysis can used to present interview or focus group data.

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7.5: Ethical Issues in Marketing Research

Learning Objectives

By the end of this section, you will be able to

- Describe ethical issues relating to marketing research.
- Discuss ways to avoid unethical research practices.

The Use of Deceptive Practices

In marketing research, there are many potential areas of ethical concern. Each day, people share personal information on social media, through company databases, and on mobile devices. So, how do companies make sure to remain ethical in decisions regarding this vast amount of research data? Marketers must balance the benefits of having access to this data with the privacy of and concern for all people they can impact.

Too many times, we have heard about the lack of ethical decision-making when it comes to marketing research or personal data. Companies are hacked, share or sell personal information, or use promotion disguised as research. Each of these can be considered unethical.

Link to Learning: The Insights Association

There is an organization devoted to the support and integrity of quality marketing research. This organization, called The Insights Association (IA), "protects and creates demand for the evolving insights and analytics industry by promoting the indisputable role of insights in driving business impact" (Insights Association, 2021). Having a solid understanding of ethical practices is critical for any marketing professional. Become familiar with terminology, responsibilities, enforcements, and sanctions of the IA's code of standards and ethics.

First, let's look at some deceptive practices that might be conducted through research. The first represents something as research when it is really an attempt to sell a product. This is called sugging. Sugging happens when an individual identifies themselves as a researcher, collects some data, and then uses the data to suggest specific purchases (Masters, 2019). According to the Insights Association Code of Marketing Research Standards, researchers should always separate the selling of products from the research process (Insights Association, 2021).

Other deceptive research practices include using persuasive language to encourage a participant to select a particular answer, misrepresenting research data subjectively rather than objectively while presenting the results, and padding research data with fabricated answers to increase response rate or create a specific outcome.

Invasion of Privacy

Privacy is another concern when it comes to marketing research data. For researchers, privacy is maintaining the data of research participants discretely and holding confidentiality. Many participants are hesitant to give out identifying information for fear that the information will leak, be tied back to them personally, or be used to steal their identity. To help respondents overcome these concerns, researchers can identify the research as being either confidential or anonymous.

Confidential data is when respondents share their identifying information with the researcher, but the researcher does not share it beyond that point. In this situation, the research may need some identifier to match up previous information with the new content—for instance, a customer or membership number. Anonymous data is when a respondent does not provide identifying information at all, so there is no chance of being identified. Researchers should always be careful with personal information, keeping it behind a firewall, behind a password-protected screen, or physically locked away.

Breaches of Confidentiality

One of the most important ethical considerations for marketing researchers is the concept of confidentiality of respondents' information. To obtain a rich data set, very personal information may be gathered. When a researcher uses that information in an unethical manner, it is a breach of confidentiality. Many research studies start with a statement of how the respondent's information

will be used and how the researcher will maintain confidentiality. Companies may sell personal information, share the respondents' contact information, or tie specific answers to a respondent. These are all breaches of confidentiality for which researchers are held accountable (Insights Association, 2021).

Although we hear about how companies utilize customers' data unethically, many operate ethically. One example is the search engine DuckDuckGo. The search industry generates millions of user data daily; most search providers capitalize on this data by tracking and selling this information. Alternatively, DuckDuckGo has decided NOT to track its users. Instead, it has built its business model on the fact that no user information is stored—ever. Ethically, DuckDuckGo offers users private searches, tracker blocking, and site encryption. In an industry that is continuously collecting and selling personal search information, DuckDuckGo is the exception. There is no concern about being hacked because no data is collected (DuckDuckGo, 2021).

Companies with a Conscience: Gallup



Figure 7.11 Due to ethical concerns around market research, companies like Gallup that specialize in market research must perform with high ethical standards to collect credible data so that their customers will value their work. (credit: "Survey" by EpicTop10.com/flickr, CC BY 2.0)

The Gallup Organization is a market research firm that specializes in understanding market sentiment (see Figure 7.11). Every year, Gallup completes an assessment of the honesty and ethical approach of different professions in its numerous polls. In the 2021 survey, nursing was the top profession in terms of these two measures (Saad, 2022).

Gallup's research led to additional findings about the state of ethics for businesses. "Ethical standards need to be at the core of an organization's purpose, brand and culture" (Khoury & Semykoz, 2019). But what about Gallup's own ethical standards? Gallup is "a global analytics and advice firm that helps leaders and organizations solve their most pressing problems" (Gallup, 2021). To be proficient and well-informed on the variety of topics Gallup investigates, the firm must hold itself and its employees to a high ethical standard.

Gallup completes multiple polls and research continuously. To meet the high standards of its public, Gallup must perform these practices ethically. Each step of the research process is completed with diligence and intention. For those reasons, Gallup is recognized for its ethically backed data. Gallup is a global leader in market insights and has locations in seven cities within the United States and an additional 27 locations internationally. According to Chuck Hagel, former Secretary of Defense of the United States, "Gallup is truly an island of independence—it possesses a credibility and trust that hardly any institution has. A reputation for impartial, fair, honest and superb work" (Gallup, 2021).

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7.6: Chapter Summary

In this chapter, we discovered the critical nature of marketing research on the success of a business. Big data, marketing intelligence, and marketing information systems were defined, and each was explained regarding its impact on the field of marketing research. Next, we learned about the seven steps of the marketing research process and how each step builds toward an actionable plan by management. The difference between secondary and primary data was clarified, and several sources of each were shared. Finally, ethical decision-making in research is essential as some very detailed information about consumers is collected.

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7.7: Key Terms

aided awareness | when a product, brand, or company list is provided to select from to measure awareness

anonymous data | data in which the respondent is not identified

awareness | a consumer's familiarity with a product, brand, or company

big data | the countless number of records that continues in an increasing capacity and at a faster rate; often described as volume, velocity, and variety of data generated

breach of confidentiality | a situation where the researcher promises to hold private information but discloses it in an unethical manner without permission

causal research | studies that define a cause-and-effect relationship between two factors

census | when all potential target population members are included in the research

competitive intelligence | a collection of information about competitors from the marketplace

confidential data | data that is tied back to a respondent, but the respondent's personal information is not shared

convenience sample | a nonprobability sample type where potential respondents to the research are selected by convenience rather than through any scientific method

cross tabulation | an analysis of two variables and the frequency of each answer in relation to the other variable

customer acquisition cost | the total expenses a company spends to gain a new customer

customer effort score | a survey used to measure ease of service experience with an organization

customer satisfaction score | also known as a CES, a survey used to measure ease of service experience with an organization

data analysis | the distillation of information into a more understandable and actionable format

data collection | systematic gathering of information that addresses an identified problem

database | a collection of related data

descriptive research | data collected to describe the situation in the market and help define an opinion, attitude, or behavior

electronic surveys | surveys sent through digital means to respondents; respondents also reply to the survey digitally

ethnographic research | method of collecting data that is conducted by observing people's natural behavior

experimental research | studies that define a cause-and-effect relationship between two factors

exploratory research | research conducted that is more general to learn more about the industry or market

external data | data that originates from outside the organization

focus group | a small group, typically 8 to 12 people, who are asked several questions by a moderator and encouraged to build upon each other's responses

frequency | a report of the number of each answer received

in-person surveys | surveys conducted when the respondent and data collector are face-to-face

infographic | a representation of data in a variety of visual presentations

internal data | critical marketing intelligence that already exists in the company's records

judgment sample | a nonprobability sample type where the potential participants are selected based on a perceived match to the sample frame

mailed surveys | surveys sent to potential participants through a mail service, such as the US Postal Service

marketing information | also known as business intelligence, competitive intelligence, or marketing intelligence; information about the market that helps to identify opportunities available

marketing information system | a system used to collect, analyze, and report interesting findings from internal and external data of the company

marketing research | the function that links the consumer, customer, and public to the marketer through information

mean | an arithmetic average of values

mechanical observation | the use of electronic monitoring to record the actions of the observed

median | the middle number when all answers are organized from smallest to largest; if an even number of data, the mean of the two middle answers is the median

mode | the most common response

nonprobability sample | a situation which each member of the population has an unknown chance of being selected to be part of the sample

observational research | data collected by watching consumers and recording actions

one-on-one interview | an interview that happens on an individual level between researcher and respondent

personal observations | observations that are collected by human recorders

phone surveys | surveys conducted through the use of a telephone that can be completed through digital or human methods

primary data | unique information that is collected by the researcher with the current project in mind

privacy | maintaining the data of research participants discretely and holding confidentiality

probability sample | a sample in which everyone has a known chance of being included in the research

problem definition | the realization that there is an issue that needs to be addressed

qualitative data | data that cannot be distilled into number of responses, such as responses to an interview

qualitative research | data shared through words, descriptions, and open-ended comments

quantify the research | to take a variety of data and compile it into a quantity that is easily understood

quantitative data | data that can be reduced to number of responses, such as number of responses to each answer on a multiple-choice question

questionnaire | also known as a survey, a series of several questions that can collect a variety of qualitative and quantitative data; can be distributed through several different methods

sample | a portion of the entire population that is included in the research

sample frame | a parameter that defines who will be included in the sample and who would not be included

sample size | the number of respondents that are to be included in the research

sampling unit | each individual entities that is included in the sample

secondary data | any research that was completed, within the organization or outside of the organization, for another purpose

simple random sample | a type of probability sample where every entity has an equal chance of being selected

stratified random sample | a probability sample type where the population is divided into groups and then participants are selected from each stratum randomly

sugging | suggesting a purchase disguised as research

survey | also known as a questionnaire, a series of several questions that can collect a variety of qualitative and quantitative data; can be distributed through several different methods

syndicated data | a type of secondary data that is available through a subscription service

target population | the group of people that are of interest for a study

unaided awareness | when no prompts or lists of potential products, brands, or companies are given to test awareness

unobtrusive observation | a type of observation research where the observed is not aware they are being monitored

verbatims | exact quotations of responses to a qualitative question

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7.8: Applied Marketing Knowledge- Discussion Questions

1. Why is it vital for companies to understand and use customer insights in gathering and managing marketing information?
2. Public policies and laws supporting ethics in marketing research have resulted in companies like Meta (formerly Facebook) being accused of intruding upon consumer privacy, misusing information gathered from users, and exploiting children. As a consumer, how do you feel about companies tracing your digital footprint? As a marketer, what value do you see in tracing consumers' online activities?
3. What are the seven steps necessary in designing a marketing research project?
4. List two reasons why quantitative research data is better utilized to measure a population's attitudes and potential responses to new product releases than qualitative data. List two reasons why qualitative data is most often collected to provide deeper insights into consumer behavior.
5. Research codes of conduct are published by the American Marketing Association, the American Association for Public Opinion Research, the Council of American Survey Research Organizations, and the Marketing Research Association in order to define standards of ethical behavior. List three overlapping areas these organizations have identified as important in regulating the marketing industry.

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7.9: Critical Thinking Exercises

1. Draw a diagram depicting a marketing information system. Show how the marketing research process connects marketing managers with the marketing environment to collect information through internal records, marketing intelligence, and marketing research. Remember that the overall intent is first to assess information needs to reduce information gaps between the company and its customers, target markets, suppliers, and prospective clients. Amassing timely information allows firms to address these gaps, design the method for collecting information, manage and implement the data collection process, analyze the results, and disseminate results and their implications.
2. Survey five college students via email, social media, telephone, or in person to learn more about the student demographic. Explain that you are collecting data only for a classroom assignment and will not identify them by name.

Ask these questions:

A. If you could adopt a rescue animal today, what would it be?
B. What is the best pizza topping?
C. Would you rather sneeze for an hour or have hiccups for an hour?
D. Would you rather get $1 million right now or $10,000 per month for a lifetime?
E. What is your least favorite food?

2a. Summarize and report your results in a chart.
2b. C and D are structurally different questions than A, B, and E. What's the difference between these questions?
2c. Can your findings be applied to all college students? Why or why not?

3. The U.S. Census gathers and disseminates detailed big data about U.S. residents. Visit Explore Census Data and type your hometown into the search box. The results will include maps, web pages mentioning your hometown, and tables of information gathered by the decennial census as well as the American Community Survey. What method was used to collect this data? Do these tables represent probability or nonprobability samples? Why might these tables be important informational sources for marketers? Check out the table reporting age and sex. What is the median age? Does this statistic surprise you?

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7.10: Building Your Personal Brand

If you're a curious person, you may enjoy a career in data science, marketing research, or consumer insights. Businesses report that there is a growing need for data specialists—analysts, engineers, scientists, translators, and cybersecurity managers—to grasp the power of data insights to drive major business initiatives. Business professionals across organizations depend on analytical know-how to make informed decisions with real-time insights. Ongoing data evolution requires that data scientists learn and adopt new technology to accelerate organizational data strategies.

For budding professionals in the data science/consumer insights field, it's essential to have foundational knowledge in applied mathematics, statistics, data analytics and visualization, machine learning, computer science, or data engineering. These may be courses you wish to add to your upper-level academic work. You can also apply the resulting skill sets to your brand as you investigate internships and projects. Keep in mind that insights specialists must be able to communicate and present complex findings to cross-functional teams clearly and succinctly, driving data-driven decision-making from those findings.

Internal marketing departments generally rely on analysts to handle business intelligence and data scientists to aggregate company data. Read this article to better understand the role differences between a marketing analyst and a data scientist. Review the differences in salaries for marketing analysts and data scientists here.

Now, build a chart summarizing the skills necessary for both roles and then identify which of those skills you feel you already possess and which you need to work on. For those skills that you need to develop, identify one or two steps you can take to add this to your personal brand.

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7.11: What Do Marketers Do?

Research is a part of many career paths for marketers and business personnel. Financial planners, human resource managers, logistics analysts, and marketing strategists all use research on a daily basis. Most businesses now rely upon customer loyalty and product/service ratings as they attempt to gain distinction among competitors. Many companies now ask consumers to rate their products and services. That rating is the next best thing to asking friends and family members for product suggestions. Customers want proof that products or services are reputable. Customer reviews are vital in providing personalized experience and insights to promote customer relationships.

Speak to a consumer insights specialist from a local advertising agency or a professor at your college or another university—especially one who specializes in big data analytics—about the importance of data in marketing decisions. To find an insights specialist or professor, conduct a Google and/or LinkedIn search. Also check out this list of top marketing professors on Twitter.

In your interview, you might ask the following questions, but be sure to also include any questions you might have.

- What is big data, and how do firms gather it?
- How do companies I may be familiar with analyze and use data regularly to inform marketing efforts?
- What are metrics, dashboards, and actionable goals?
- I understand that employee turnover is a major consideration in customer satisfaction these days. How does data analysis help companies measure employee satisfaction?
- Are there specific methods to gather information about customer satisfaction?
- I've received emails after making a purchase online, asking for my feedback. How seriously is this feedback taken?
- Can you give an example of how researchers may use primary and secondary data?
- Are there specific courses I should take if I'm interested in the data side of marketing?

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7.12: Closing Company Case

Nordstrom

One day a customer walked into an upscale fashion retail store in Anchorage, Alaska, to return a set of tires. The store had a wide selection of shoes, clothes, and accessories, but no tires. However, the store that previously occupied the space did sell tires. After much discussion, a Nordstrom store manager made the return and accepted the tires. The story is legendary in customer service circles. It is also true.

A leading fashion retailer based in Seattle, Washington, Nordstrom prides itself on customer service and innovative methods of serving the customer. Founded in 1901, the company now operates 358 retail stores in the United States and Canada, as well as online retail (Worzel, 2022).

Nordstrom has long been famous for its customer-centric mindset. The “Nordstrom way” has always been about serving customers according to their needs and making them feel good about the shopping experience. Part of the experience is focused on ease, selection, and convenience.

In 2020, Nordstrom saw tremendous growth in online sales. By integrating online and in-store sales, the company realized that 50% of customers who buy in-store at Nordstrom have first had a digital experience with the retailer. Identifying trends between in-store sales and online sales has assisted Nordstrom in formulating a more customer-centric strategy (Nordstrom, 2021).

Nordstrom sales associates are key to better serving customers and increasing sales. Sales associates develop connections with customers. With good questions and involvement in the customer experience, the sales associates determine consumer needs and wants. Understanding consumer needs and wants leads Nordstrom to craft an experience unparalleled in retail (Nordstrom, 2022).

Through careful study of the customer and the analytics available in online and in-person shopping patterns, Nordstrom has developed a more robust system that allows for seamless coordination between all Nordstrom properties. In developing a better customer experience, Nordstrom worked to really understand how customers live and behave.

Nordstrom Local emerged from customer interactions, observation, online data, and careful marketing research. One key piece of information was that 35% of customers who place an online order first visited a store to help guide the purchase decision (Conte, 2012). With Los Angeles and New York as the top markets, Nordstrom needed methods to connect with and help ease the purchase process for its customers in these locations.

One significant aspect of the purchase process was to make online ordering easier, allowing for quick in-store pickups and returns while also including a method of getting alterations when and where it was most convenient. The creation of Nordstrom Local was the answer. Through a Nordstrom Local, available in the top markets, the customer could get the Nordstrom experience—closer to home.

Nordstrom realized the more channels customers could use, the more they would spend with the retailer. In fact, soon after opening Nordstrom Local, the company was able to determine that customers using the new locations spend 2.5 times the amount of all other customers. So, how could the company better serve those customers and make transactions more profitable?

Part of the Nordstrom plan to connect the customer more fully with the “experience” included the ability to easily order online and pick up in-store—using Nordstrom Local made that possibility easier to achieve. Nordstrom Local also included tailors available at pickup, the exclusive Nordstrom Stylist who would travel to all stores within a local market area, easy returns and exchanges, and finally, Certified Gift-Wrapping Specialists to make special packages look styled for whatever the occasion.

Consumer insights help Nordstrom to provide curated merchandise for each store. When shopping at Nordstrom, you will find merchandise specific to the region and store location. Pop-up shops are a regular feature at Nordstrom. The pop-up allows for a preview of potential merchandise to meet the needs of the local market. A well-rounded plan to connect at every point of contact has allowed Nordstrom to create an experience unrivaled in the industry.

Case Questions

1. Nordstrom is legendary for providing the best customer experience. What are some of the ways Nordstrom has gathered marketing research from the consumer?
2. When Nordstrom analyzes the data found in its online sales platforms, what type of marketing research is it using?

3. In what ways has Nordstrom used data to enhance the customer experience?
4. Nordstrom realized a connection between online shopping and in-store shopping. It developed methods to capture the online customer and increase in-store sales. In what ways was Nordstrom able to understand customer shopping behaviors?

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CHAPTER OVERVIEW

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8.1: In the Spotlight

Multinational consumer goods corporation Procter & Gamble is a good example of a company that understands the significance and impact of marketing in a diverse marketplace. P&G has a long history of reaching out to consumers from different sociocultural communities. In 1961, the company became one of the first major manufacturers in the United States to air a TV commercial in Spanish aimed at Hispanic consumers on a Spanish-language channel (later known as Univisión) (Procter & Gamble, 2023).

After the Civil Rights Act was signed in 1964 and the Equal Employment Opportunity Commission (EEOC) was formed in 1965, P&G proactively launched its own affirmative action plans across all its business units. P&G instituted the changes even before the EEOC was fully functional. That same year, P&G also conducted product research with Hispanic consumers in Miami, focusing on the scent used in its Secret deodorant line. This commitment to diversity in business practices has remained strong through the years.



Figure 8.1 Diversity marketing is an adaptation strategy in which companies tailor their marketing mix (price, product, place, and promotion) to meet the preferences of targeted populations. (credit: modification of work “Diversity Quilt” by OregonDOT/flickr, CC BY 2.0)

P&G continues to demonstrate how to embrace diversity marketing, not just through actions but through core beliefs and values. The company debuted its “Widen the Screen” campaign in 2021 during the National Association for the Advancement of Colored People (NAACP) Image Awards. The commercial has several short episodes developed by a team of Black creators. Its message is intended to challenge stereotypes and negative attitudes toward the Black community. In a special TV interview, influencer and daytime TV celebrity Oprah Winfrey strongly praised the campaign’s creative opportunities, since Black creators account for only 6% of all films made (OWN, 2021). These types of initiatives are evidence that P&G remains steadfast in its support of cultural and societal values, as well as expanding marketing’s horizons to be more inclusive.

Diversity in marketing is often shortsightedly thought of as simply featuring people, objects, or situations linked to various cultural or sociodemographic groups in marketing efforts. These are important components, but diversity marketing goes much deeper than that. In a 2021 keynote presentation about advancing diversity in advertising and business, P&G Chief Brand Officer Marc Pritchard emphasized that the company’s commitment to consumers extends to race, ethnicity, and gender representation equal to the American population (Myers, 2021).

Pritchard added that true and complete inclusion calls for having equitable representation throughout the entire business, including up and down the company’s supply chain. This means that even subcontracted agencies, production crews, and media companies that P&G works with reflect the market’s diverse demographics. P&G is a diversity marketing champion because it believes in accurately representing all people in advertising and communications, regardless of cultural or social group, to build a better society.

P&G’s value-creating strategies and purposeful actions embody the concepts of this chapter. Marketing in a diverse marketplace is about understanding why and how to meet consumers’ diversity-based needs while achieving corporate objectives and driving business sustainability at the same time. P&G's campaign “Widen the Screen” invites viewers to widen their perspectives and appreciate the full picture of Black people's lives through diverse everyday situations.



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8.2: Strategic Marketing- Standardization versus Adaptation

Learning Objectives

By the end of this section, you will be able to

- Define marketing standardization.
- Define marketing adaptation.
- Explain when to use diversity marketing as an adaptation strategy.

Standardization Strategy Defined

To meet the marketplace's demands, companies must carefully formulate competitive strategies based on internal and external conditions. These strategies must balance the capabilities of the organization's business activities, such as marketing, sales, operations, customer service, finance, and human resources management, with multiple environmental factors in the market. Among these are competition, globalization, technology, culture, and changes in consumer demographics and behavior. Companies can choose between two types of strategic approaches, standardization or adaptation, depending on these internal and external variables.

Standardization is the process of purposefully applying identical or consistent guidelines to achieve uniformity. It is not limited to goods and services. Ideas, experiences, data, manufacturing processes, metrics, and operating practices within a business can also be standardized.

A standardized strategy is expressed through the sameness of an offering's features, packaging, pricing, messaging, or advertising to consumers in the marketplace. Companies adopt this strategy for several reasons. These include increasing sales, reducing costs, maximizing efficiencies, improving competitiveness, and gaining a larger customer base.

Think about Apple products. The company standardizes its iPhone, iPad, and Mac computers worldwide. Anywhere you go, Apple devices look and work the same. Only the devices' power source is changed, reflecting power voltage differences in different parts of the world. Standardization allows Apple to streamline production, speed up market launches, and increase device recognition around the globe.

Adaptation Strategy Defined

Adaptation is the process of adjusting a company's work efforts, goods, or services in response to specific needs, tastes, or expectations from different groups of consumers. An adaptation strategy typically involves two steps. The first is identifying the modifications required to increase an offering's appeal among a targeted audience. The second is implementing the changes based on the organization's abilities and resources. Both of these tasks are crucial to determine the strategy's viability.

Why do companies consider modifying products when doing so generally entails additional costs? The reason is that adaptations are useful to create unique market offerings, generate interest, or provide a competitive differentiation. In other words, this strategy is advisable when the outcome of the change results in reduced risks to the business. Companies can also adapt an existing product, instead of creating a new one, to reduce costs associated with producing new goods. For example, Ford Motor Company adapts the D4 automobile platform for chassis design and engine configuration to its Ford and Lincoln models to save money and offer cars at competitive price points.

Sometimes businesses need adaptation strategies because of market disruptions caused by socioeconomic issues, natural disasters, or health concerns such as the COVID-19 pandemic. Zoom, the video conferencing company, was forced to adjust its practices at lightning speed to meet the unexpected demand uptick caused by the pandemic. In only five months (December 2019 to April 2020), Zoom's customer base grew from 10 million to 300 million users (Nazar, 2021). Zoom's adaptation strategy included new data centers, extended partnerships, price and service changes, and platform updates to serve all types of customers.

Diversity Marketing as an Adaptation Strategy

In marketing, an adaptation strategy translates into tailoring the marketing mix—product, price, place, and promotion—to suit the preferences of targeted populations. Adaptation strategies are often associated with entering a foreign country.

McDonald's is a good example of a company that adapts its marketing mix to be locally relevant to diverse global consumers. McDonald's introduced the McVeggie and the McAloo in India (see Figure 8.2), the Bai Shrimp Filet-O and the Bai Teriyaki Chicken Filet-O in Japan, poutine fries in Canada, the Picanha ClubHouse Burger in Brazil, and the Bubblegum Squash McFlurry in New Zealand. Besides adjusting the menu (product), McDonald's also aligns advertisements (promotion) and services with local expectations (price and place) while delivering a consistent customer experience from one country to another.



Figure 8.2 McDonald's McAloo Tiki Burger in India is an example of how one company adjusted its marketing mix to meet local preferences. (credit: "McAloo Tiki" by igb, CC BY 2.0)

This strategy is not limited to marketing in different parts of the globe. Companies can adjust any element of the marketing mix when expanding their market share within a region or a single country. This decision, however, should not be taken lightly. Adapting marketing efforts can be costly, time-consuming, and disruptive to the business. Plus, unexpected changes in a product's message can confuse existing customers.

Marketing adaptation is clearly an option to grow the marketplace. When this strategy is based on a population's cultural or demographic differences, it is diversity marketing. Here is a good example from Nike. The "Nike by You" (see Figure 8.3) shoe-designing service enables the company to expand its appeal to different population segments. By allowing consumers to change the footwear's colors and materials, Nike delivers products adapted to audiences' ethnic and social preferences (Kotabe & Helsen, 2020).



Figure 8.3 The Nike by You shoe campaign is a shoe-customization product that lets consumers design their shoes to meet their individual preferences. (credit: "SSL10007" by cagbay/flickr, CC BY 2.0)

Link to Learning: Nike and Diversity

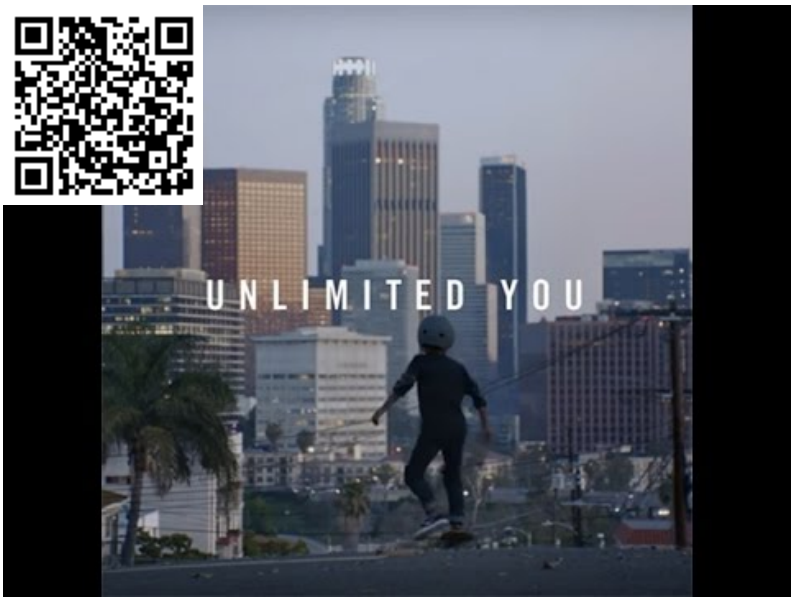
To prepare for a marketing career, learning from companies known for their diversity campaigns will help you with your future campaigns. According to eMarketer data, Nike has one of the highest levels of diversity in its advertising. Here are a few

examples of supporting information about Nike's diversity and inclusion campaigns.

- Emmy-winning You Can't Stop Us:



- You Can't Be Stopped campaign
- Nike Unlimited You commercial:



- Nike By You
- Nike Diversity, Equity, and Inclusion strategy

Other companies are also known for their diversity and inclusion strategies. Read about some of them in this HubSpot article.

Diversity marketing is an effective response to consumers' cultural or demographic diversity in a market. Why is it an adaptation strategy? Because diversity marketing involves changing a product or service to match the needs, wants, and demands of a population's subgroup of consumers.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Choosing between standardization and adaption strategies includes _____.

a. balancing internal capabilities, such as operations, with external forces, such as competition
b. assessing only external forces, such as technology, and consumer demographic changes
c. adjusting only a company's resources, assets, and conditions to the market
d. assessing and reducing the company's consumer base to be more effective

2.

Which of the following is NOT a reason to implement a standardized marketing strategy?

a. To increase sales and reduce costs
b. To maximize a company's manufacturing or production efficiencies
c. To improve competitiveness and increase customer base
d. To increase flexibility with constrained standards

3.

A marketing adaptation strategy involves _____.

a. adjusting a company's efforts and the marketing mix to increase appeal
b. responding to targeted consumers' specific needs, tastes, or expectations
c. implementing company changes based on organizational abilities and resources
d. All of these statements are correct.

4.

Adaptations are useful for all the following EXCEPT _____.

a. creating a unique market product
b. generating interest in a service
c. reducing production costs
d. providing a competitive differentiation

5.

An adaptation strategy to expand into culturally or demographically diverse markets can benefit a company by _____.

a. reducing business disruptions
b. increasing the customer base
c. speeding up the execution time
d. shifting the marketing focus solely to the company

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8.3: Diversity and Inclusion Marketing

Learning Objectives

By the end of this section, you will be able to

- Define diversity marketing, multicultural marketing, and sociodemographic marketing.
- Explain why diversity marketing is needed in today's marketplace.
- Explain the importance of diversity in market research.
- List the factors that impact diversity marketing.

Diversity Marketing Defined

As you read in the previous section, diversity marketing is a strategic approach that involves identifying diverse subsegments of the population within a market and creating intentional marketing efforts to reach wider audiences. This last piece is key. It has an element of inclusion because it purposefully incorporates identity-specific consumers that have been overlooked or pushed to the margins of society, such as some ethnic minorities, people with disabilities, elderly adults, low-income persons, and other groups. Marginalized consumers are often excluded in mainstream advertising, translating into missed business opportunities. Diversity marketing is a strategy for marketers to include them.

Diversity marketing is more than just an awareness of minority identities, underrepresented communities, or racial distinctions. It is about being culturally responsive, meaning having an actionable understanding of diverse consumers' interests and preferences based on shared cultural and sociodemographic characteristics. Consider the five key parameters most often used to describe diversity: cultural, racial, and ethnic; gender and sexual identity; generational, religion, and disability (Cletus et al., 2018). Culture, race, and ethnicity are part of the cultural aspect, while the others are part of the sociodemographic aspect. Because of the broad scope of diversity marketing, as seen in Figure 8.4, this strategy can help marketers reach larger market audiences. Diversity marketing can also influence consumers' mindsets and generate positive attention.

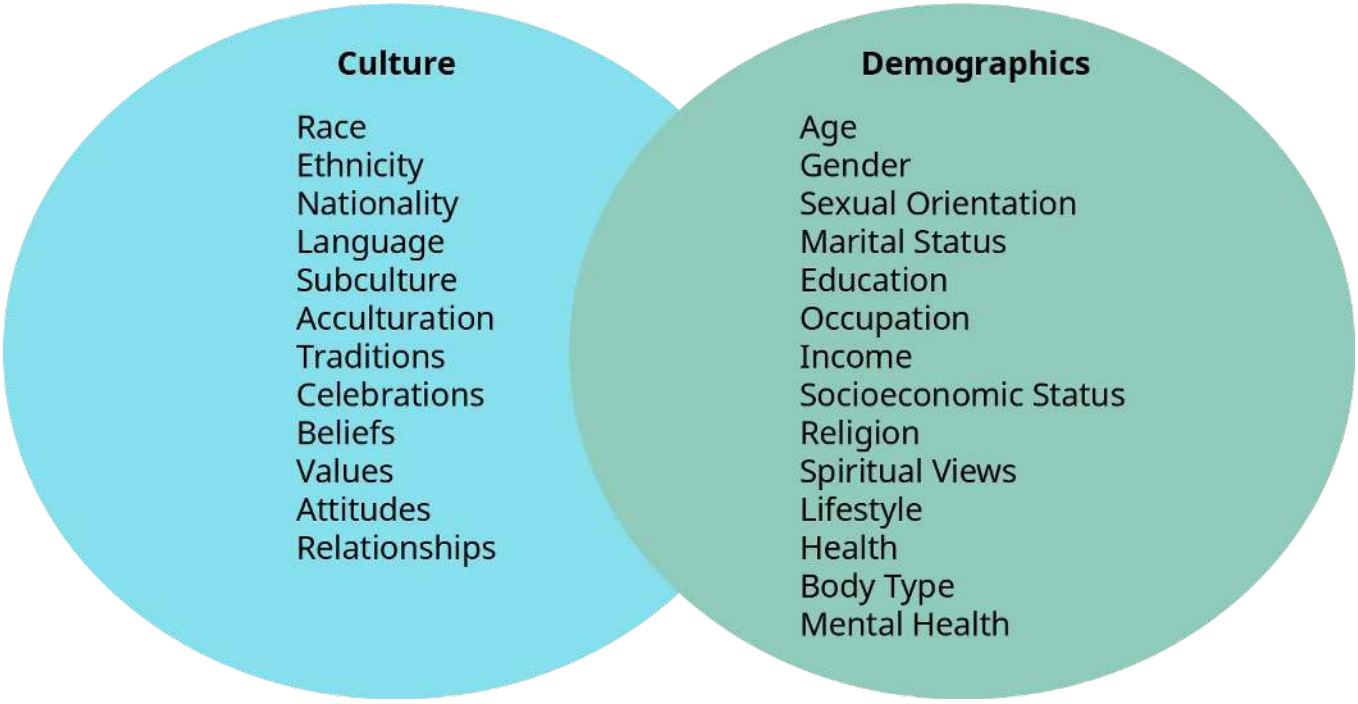


Figure 8.4 Diversity Marketing Dimensions (CC BY 4.0; Rice University & OpenStax)

Importance of Diversity Marketing

The idea of marketing driven by consumer diversity is highly relevant and meaningful because today's marketplace is changing dramatically. This evolution is happening not only in the United States but also around the globe. For marketers, this means that

generalizing buyers, households, or communities anywhere in the world is a shortsighted perspective because it limits business growth and commercial possibilities. Plus, oversimplifying population segments can also adversely affect a company's reputation by negatively shifting the public's opinion. The consequences can hurt sales, lead to missed opportunities, and undermine competitive status. This makes it essential to align markets and diversity marketing goals.

Even though "one size fits all consumers" tactics worked in past decades, that is no longer the case. Failure to recognize diversity marketing as an essential component of any marketing plan in these changing times is a business blunder. In a study conducted by Adobe in 2019 among 2,000+ consumers, results showed that 61% of participants believed that diversity in marketing campaigns was important, and at least 38% were also said to be more inclined to trust brands that showed good diversity in advertisements (Thompson, 2020). Inclusion and diversity marketing are vital to a company's success in any market.

What It Means to Businesses

Leading the marketing strategy with a diversity-driven intention can increase customer satisfaction and build stronger brand loyalty. Top Design Firms surveyed hundreds of consumers in late 2020 and found that 67% would consider making repeat purchases from companies committed to diversity in marketing campaigns (Jordan, 2020).

Another report confirmed that these observations are not restricted to specific populations. Market analysis by Heat Agency found that high diversity scores for brands translated into a whopping 83% higher preference by consumers (Williams, 2019). Besides improving brand sentiment overall, studies show that companies that build emotional ties through diversity marketing programs generate more revenue, increase stock price performance, and enhance brand perceptions (Deloitte Digital, 2022).

What It Means to Consumers

Diversity marketing is important on a personal level because of what it implies. Companies that prioritize this strategy clearly demonstrate a higher level of understanding, value, and respect for all individuals in society. The conscientious inclusion of racially, ethnically, culturally, and socially distinct groups in marketing efforts suggests a genuine desire to communicate and engage with everyone.

Acknowledging consumers' differences and adopting tactics to meet each group's needs and preferences also validates individuals' importance in the market. From a consumer standpoint, the application of diversity and inclusion measures in a company's marketing practices shows a universal recognition and appreciation for people.

Factors Impacting Diversity Marketing

As shown in Figure 8.4, diversity marketing is based on a variety of cultural and sociodemographic consumer characteristics. Marketers must be mindful of these distinctions, so marketing communication campaigns launched are sensitive to the audiences they are attempting to serve. After all, cultural and sociodemographic factors can greatly influence consumers' motivations, reactions, and decisions. Other related variables, such as behavioral and personal, can shape buyers' consumption levels and their receptiveness to marketing messages. Given the impact of these factors, for companies to be successful in any market, the focus of diversity marketing must be customer-centric rather than company-centric. Being customer-centric is when a company targets customers first regarding any decisions about its goods, services, or experiences, while company-centric is when a company focuses decisions from the organization's perspective. Building a proper sociocultural conscience in marketing starts with good research.

Market Research

Market research is essential for developing successful marketing strategies because it leads to consumer insights. It also identifies potential communication gaps. This means diversity must be treated as a market research factor to learn about multidimensional audiences. Leveraging consumer diversity in the research process has several benefits. For instance, it provides the information needed to better understand people's cultural or social differences. This is useful for companies to avoid wrong assumptions and avert public mishaps.

Marketers do not have to belong to or identify with a specific consumer group to do good research. However, understanding how ethnic and sociocultural differences impact buyers' decisions and actions requires diversity marketing intelligence (DMiQ). Diversity marketing intelligence refers to the capability of identifying, accepting, and valuing the diversity of consumers within a market and using this knowledge to tailor the marketing mix accordingly.

In early 2018, Tarte Cosmetics introduced its highly anticipated Shape Tape Foundation to the market. The launch featured 15 shades of makeup, almost all light tones. However, the product was not well received. Loyal customers were furious because of the lack of shades for people with darker skin. Tarte Cosmetics was accused of being a whitewashed brand and even of making deeper skin-toned people feel inadequate (Baragona, 2018). The company quickly apologized for alienating customers and changed its product and marketing communication.

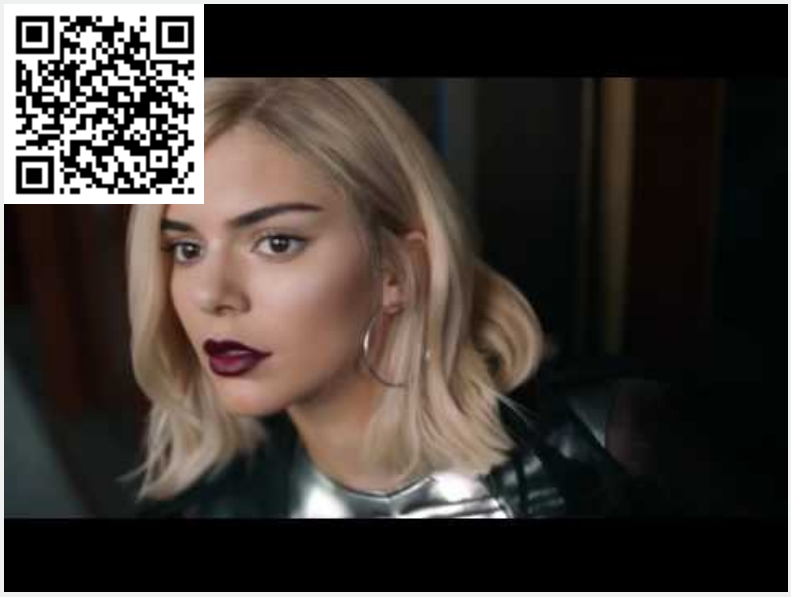
Link to Learning: Fenty Beauty

Rihanna did more than just lend her name to the brand Fenty Beauty—she also developed products that increased diversity in the beauty business with its 40-shade foundation range and a wide range of sizes, making $100 million in sales in the first 40 days! The company has been criticized for the use of child labor by some of its suppliers and has made what its founder described as careless choices during a fashion show. But it remains known for continuing to reflect a more inclusive approach to beauty and clothing products. Read more about Fenty Beauty from this Latana article or this article from *Newsweek*.

When diversity marketing efforts fall short, as the Tarte Cosmetics case shows, it is often the result of racially or socially charged insensitivity and missteps. The outcome can have costly repercussions for companies. In 2017, PepsiCo (see Figure 8.5) received heavy backlash for its "Live for Now Moments Anthem" campaign featuring Kendall Jenner. The commercial was criticized for trivializing the Black Lives Matter (BLM) movement and undermining protesters' real-life hardships in pursuit of peace and justice (Smith, 2017). It was described as insensitive and offensive.

Link to Learning: Live for Now Moments Anthem

Evaluating successful campaigns and failures is important in the learning process. Find as many opportunities as you can to learn from failures. Start by watching Live for Now Moments for an example of a campaign that failed because it was offensive and missed the mark.



PepsiCo defended its position as not intending to be socially disrespectful. However, PepsiCo withdrew the commercial, which was estimated to have cost $5 million to produce, and widely apologized to the market and Jenner (Adams, 2020). A final lesson here is that when diversity marketing efforts are done correctly—as Fenty Beauty did—it can boost brand awareness, consumer engagement, and sales.



Figure 8.5 The PepsiCo commercial "Live for Now Moments Anthem" was an expensive lesson for the company—a failed campaign criticized for highlighting a culture's real-life hardships. (credit: "Pepsi" by Mike Mozart, JeepersMedia/flickr, CC BY 2.0)

Race and Ethnicity

Two out of every five individuals in the United States—over 40% of the population—identify racially or ethnically as other than non-Hispanic White (Budiman, 2020). Researchers expect this trend to keep growing in the coming decades, and as consumer diversity increases, cultural identification becomes even more important. Race, ethnicity, and culture give meaning to one another. This makes it critical for marketers to pay attention to how multiracial or multiethnic consumers identify culturally. Having a multicultural identity means that a person has been exposed to various cultures and self-identifies as part of more than one racial or ethnic community or various social groups (Pekerti & Thomas, 2016). We will focus on four key multicultural identity segments of the American population:

- Hispanic
- Black
- Asian
- Native American/Alaska Native

Being multicultural can take many forms. Multicultural individuals may speak multiple languages or have different sets of friends in each culture. From a marketing perspective, multicultural consumers may respond differently to brands or products depending on their multicultural affiliation (Kipnis et al., 2019). Why is this significant? Because marketers must consider the effects of multiculturalism on the marketplace when developing the marketing mix. Race and ethnicity are clearly linked to diversity marketing.

Modelo Especial is a good example. Modelo Especial is a Mexican beer that has successfully capitalized on its heritage to target the Hispanic population while also appealing to the general market. Marketed by Constellation Brands, the beer has had strong sales in the United States since the 1990s (Sands, 1994). In 2019, Hispanic consumers captured close to 70% of the brand's national sales, but Hispanic people are only about half of the customer base (Elejalde-Ruiz, 2019). Over several decades, various aspects of Hispanic culture have been widely embraced in the United States. Have you heard of artists such as Jennifer Lopez, Pitbull, Bad Bunny, and J Balvin? The marketing team at Constellations Brands attributes the brand's mainstream appeal not only to connecting well with Hispanic consumers but also to the openness of millennial and Gen Z consumers to different cultures and lifestyles.

sociodemographics

In marketing, sociodemographics describes the combination of social and demographic factors that characterize specific consumer groups in the market. These factors are mostly quantifiable, meaning they can be measured or verified to a certain extent. Though race and ethnicity are cultural factors, sometimes they are included in market research as sociodemographic parameters. This is

done to increase the generalization of consumer findings and to uncover potential areas of concern linked to social issues (Flanagin et al., 2021).

Sociodemographic variables typically consist of gender and sexual orientation, age or generation, family structure, religion, education level, and income. The latter two are also frequently associated with socioeconomic status. Disability is another variable that can be treated as a demographic factor. Figure 8.4 offers a more comprehensive list of diversity marketing's sociodemographic factors.

As with multicultural consumers, segmenting buyers based on shared sociodemographic factors allows companies to tailor goods or services to match the needs and preferences of this diverse group. This enables marketers to develop the right marketing mix and create effective advertising content to influence distinct consumers. Here is how Disney uses family structure as a sociodemographic factor to segment and target social media users. Disney on Ice is a music and skating show that brings the magic of Disney to ice rinks around the country. People with small children are more likely to consider family entertainment activities, so Disney on Ice targets these consumers on Facebook with tailored family-oriented ads.

Multicultural Marketing Defined

Multicultural marketing is a strategic approach to intentionally target audiences based on different racial, ethnic, and cultural identities and backgrounds. It focuses on relevant, value-rich, culturally authentic communication tailored to multicultural consumers.

You are probably asking, Is multicultural marketing the same as diversity marketing? After all, both are often used interchangeably. The answer is no; they are not the same thing. Diversity marketing is an inclusive approach that reaches a wider portion of the entire market. Multicultural marketing is a *subcategory* of diversity marketing that is aimed at multicultural individuals.

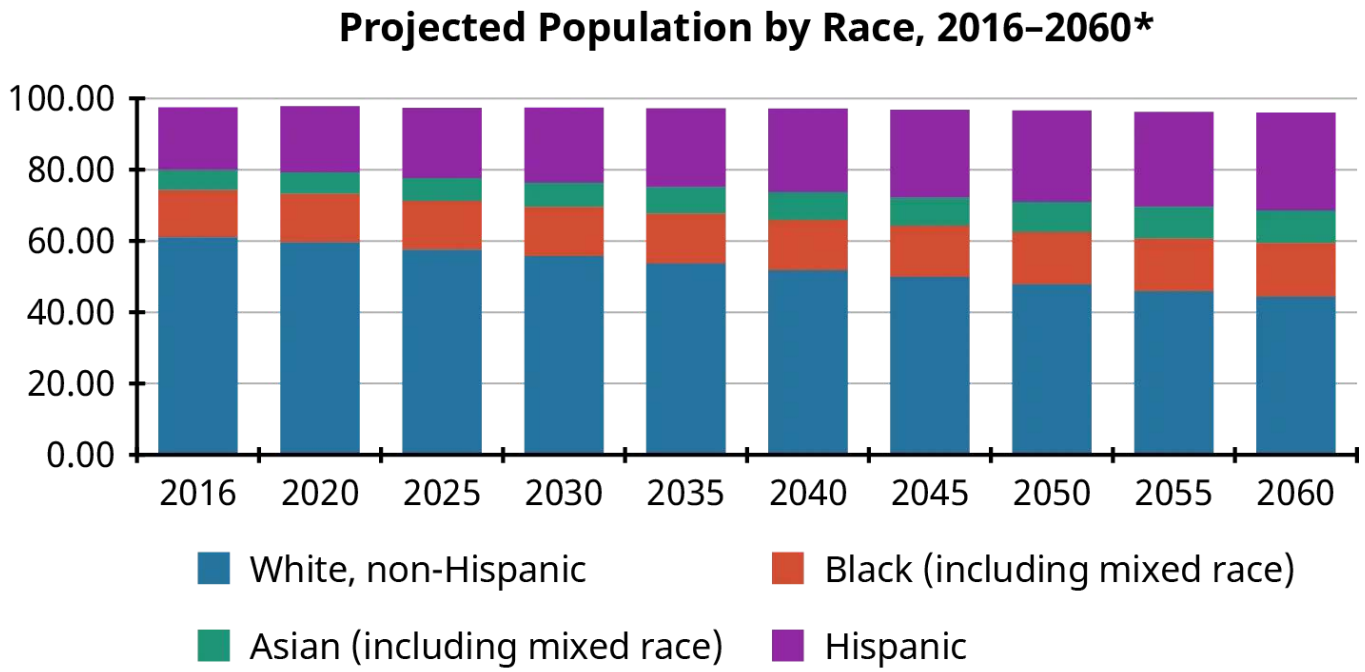
Multicultural Populations

Racial and ethnic diversity continue to grow every day around the world. In the United States, in particular, demographers predict a majority–minority population shift by the mid-2040s, as Figure 8.6 shows. In other words, most American consumers will identify as multicultural, meaning racially and ethnically diverse people of color.

This projection has enormous marketing implications for companies and nonprofit organizations. As the marketplace becomes even more racially and ethnically diverse, marketing efforts must be aligned with the needs and expectations of multicultural groups to be effective.

Let's take a closer look at these key multicultural segments of the American population:

- **The Hispanic population** is the largest multicultural group in the nation and makes up about 19% of the total population. According to data-driven marketing company Claritas, the Hispanic population is one of the fastest-growing groups, with over 63 million individuals, and is also responsible for 59% of the country's population growth between 2010 and 2021 (Claritas, 2021a). Plus, by 2026, business strategists believe that nearly two out of every three consumers in the United States will belong to this ethnic group (Claritas, 2021b). With a median age of 29, this group also has the youngest population in the country.
- **The Black population** is also a growing segment with 46.9 million individuals—or 14.2% of the total population—according to the 2020 U.S. Census. This group comprises three different sub-ethnicities: individuals who identify as Black alone (single race), or as Black Hispanic, or as Black with another race such as White or Native American (multiracial). The Black population, in general, has the second youngest median age. In fact, almost 60% of this group were millennials or younger (under the age of 38) in 2019 based on findings from the American Community Survey (Tamir, 2021).
- **The Asian population** accounts for 7.2% of the American population, with 24 million individuals from combined sub-ethnicities as reported by the 2020 Census. Like Black people, Asian people also self-classify as either single race, Asian Hispanic, or multiracial individuals. Communities often included as part of the Asian multiracial composition are Native Hawaiians and Pacific Islanders. Asians' three classifications combined experienced the fastest population growth of all multicultural segments in the nation between 2000 and 2019 (Budiman & Ruiz, 2021). The Asian population has a median age of 34 and is expected to reach around 35 million individuals by 2040 (Budiman & Ruiz, 2021).
- **The Native American/Alaska Native population** represents 1.1% of the population in the United States, with 3.7 million individuals identifying as single-race Native people. During the 2020 Census, these Native groups were combined with other races and ethnicities, boosting the number to 9.7 million people, or about 2.9% of the total population (Henderson, 2021).



* Figures do not equal 100 percent because of rounding. Not all ethnic groups are shown.

Figure 8.6 U.S. Population Projections from 2016 to 2060 by Race and Ethnicity (data source: U.S. Census Bureau; attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

sociodemographic Marketing Defined

Sociodemographic marketing is a strategic approach to intentionally target audiences based on shared social and demographic characteristics. Sounds familiar? Like multicultural marketing, sociodemographic marketing also focuses on relevant and authentic communications with consumers. Both strategies help business and organizations align their products and services with audiences' needs, preferences, and expectations.

In a 2019 study, nearly 3,000 consumers were asked to consider ads with sociodemographic attributes such as gender identity, sexual orientation, age, socioeconomic status, and physical ability. Results showed 64% of consumers taking some sort of action after seeing an ad with sociodemographic diversity (Petrock, 2020).

You might be wondering, is sociodemographic marketing the same thing as diversity marketing, then? The answer is no. Again, as with multicultural marketing, sociodemographic marketing includes underrepresented and overlooked consumers in a large population. Sociodemographic marketing is another *subcategory* of diversity marketing.

sociodemographic Populations

While all sociodemographic consumer groups are important, the following are essential segments of sociodemographic marketing:

The LGBTQIA+ population. LGBTQIA+ stands for lesbian, gay, bisexual, transsexual, queer/questioning, intersex, asexual, and other sexual identities. About 5.6% of American adults—roughly 14.4 million individuals—identify as LGBTQIA+, according to a 2020 survey (Jones, 2021). In general, LGBTQIA+ consumers spend more at retail stores than other groups and have a higher percentage of online purchases than non-LGBTQIA+ households. Not only is this segment part of diversity marketing, but the LGBTQIA+ community is also very diverse.

- Generational population. Consumers are grouped into age clusters based on birth year. These populations include 21.7 million Traditionalist or Silent Generation (born between 1928 and 1945), 70.6 million baby boomers (born between 1946 and 1964), 65 million Generation X (born between 1965 and 1980), 72.2 million Generation Y or millennials (born between 1981 and 1996), 67 million Generation Z or Zoomers (born between 1997 and 2009), and 27.6 million Generation Alpha (born between 2010 and 2025) according to 2020 U.S. Census data (Dimock, 2019). Every generation is unique and has different historical references, challenges, interests, and technological experiences that impact these consumers' preferences and appeals.

- Socioeconomically disadvantaged population. These individuals tend to come from low-income households, experience financial insecurity, and have less access to education. In the United States, the estimated number of people living in poverty was over 34 million individuals in 2019 (Semega et al., 2020). The majority of disadvantaged consumers are located in poor rural areas or inner-city communities that lack social resources and infrastructure to reduce poverty (University of Michigan, 2020). Marketers must be careful targeting these consumers to avoid negative repercussions from the market.
- Consumers with disabilities. This group represents an estimated 61 million Americans. About one in four adults lives with some type of disability (Centers for Disease Control and Prevention, 2023). Disability is a classification derived from an impairment related to mobility, learning, intellectual, or other types of functions. This group is also considered very diverse because disabilities span cultural, social, and demographic factors. Consumers with disabilities have been traditionally underrepresented in marketing efforts, though studies show they are one of the largest sociodemographic market opportunities after baby boomers and other segments (National Business and Disability Council at the Viscardi Center, 2016).

Careers In Marketing: Multicultural Marketing Director

With the growing opportunities for multicultural marketing, demand is growing for multicultural marketing directors. If this job opportunity interests you, research what type of skills hiring managers desire. To get started, read this article about the 7 Must Have Qualities in a Multicultural Marketing Director. In this article, you can also learn directly from marketing executives about how marketers can foster diverse cultures and who is getting hired and promoted in this area. The best way to learn is to follow others doing the work. Expand your network to include diverse and inclusive leaders. Start by checking out this list of 59 female marketing and growth influencers.

As you build a portfolio of skills for the job market, remember to continue developing your soft skills. Why, you might ask? Read this article: 7 Soft Skills You Need to Achieve Career Growth.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Diversity marketing is a strategic approach that includes _____.

a. identifying different subsegments of consumers
b. creating advertisements to connect with specific consumers
c. consumers that share cultural and sociodemographic characteristics
d. All of these statements are true.

2.

Which of the following is true regarding why diversity marketing is important?

a. Today's marketplace is changing dramatically everywhere.
b. Buyers, households, and communities are staying the same.
c. Consumers don't believe that diversity in advertising is important.
d. Diversity marketing has no impact on brand loyalty.

3.

For companies to be successful in any market, the focus of diversity marketing should be _____.

a. company-centric
b. brand-centric
c. consumer-centric
d. industry-centric

4.

Diversity in market research is a good idea because it can _____.

a. help companies win over people from different population segments
b. provide information to better understand cultural and social differences
c. reduce wrong assumptions and avert public relations missteps
d. All of these statements are true.

5.

Which is not an example of a diversity marketing consumer segment?

a. Multicultural segments such as Hispanic, Black, and Asian people
b. Sociodemographic segments such as tech-savvy and digital natives
c. Multicultural segments such as American Indian and Alaskan Native people
d. Sociodemographic segments such as Gen Xers, Zoomers, and consumers with disabilities

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8.4: Multicultural Marketing

Learning Objectives

By the end of this section, you will be able to

- Define culture.
- Explain the difference between tangible and intangible cultural objectives.
- List the main elements through which culture is expressed.
- Describe Hofstede's cultural dimensions.

What Is Culture?

You have already read about corporate culture in Marketing and Customer Value and cultural factors influencing buying behavior in Consumer Markets and Purchasing Behavior. Let's explore culture in more detail. After all, learning about culture is the first step to understanding why the concept is a fundamental component of multicultural marketing and how it connects with diversity marketing.

Culture refers to the social norms, beliefs, behaviors, and accomplishments that characterize a particular set of individuals. Culture also encompasses shared customs, arts, language, foods, and knowledge. In essence, it is a snapshot of a society's accepted way of living at a given place or time. Figure 8.7 provides a more extensive view of the things that represent it. As you can see, culture clearly influences many aspects of life.

The term originates from the Latin word *cultura*, which is associated with nurturing, growing, and cultivating (Merriam-Webster, 2024). This explanation makes sense because some cultural aspects are taught or passed down from one generation to the next. Think of it as planting a seed—not a physical seed, but a seed of inner values. Culture is also fostered through community socialization. The outcome of these shared learnings leads to the continued growth of a group's cultural identity and its idiosyncrasies.

To be effective in an increasingly diverse marketplace, marketers need to recognize the profound role that culture plays in consumers' behaviors and purchasing decisions. That is why multicultural insights are so important to diversity marketing.

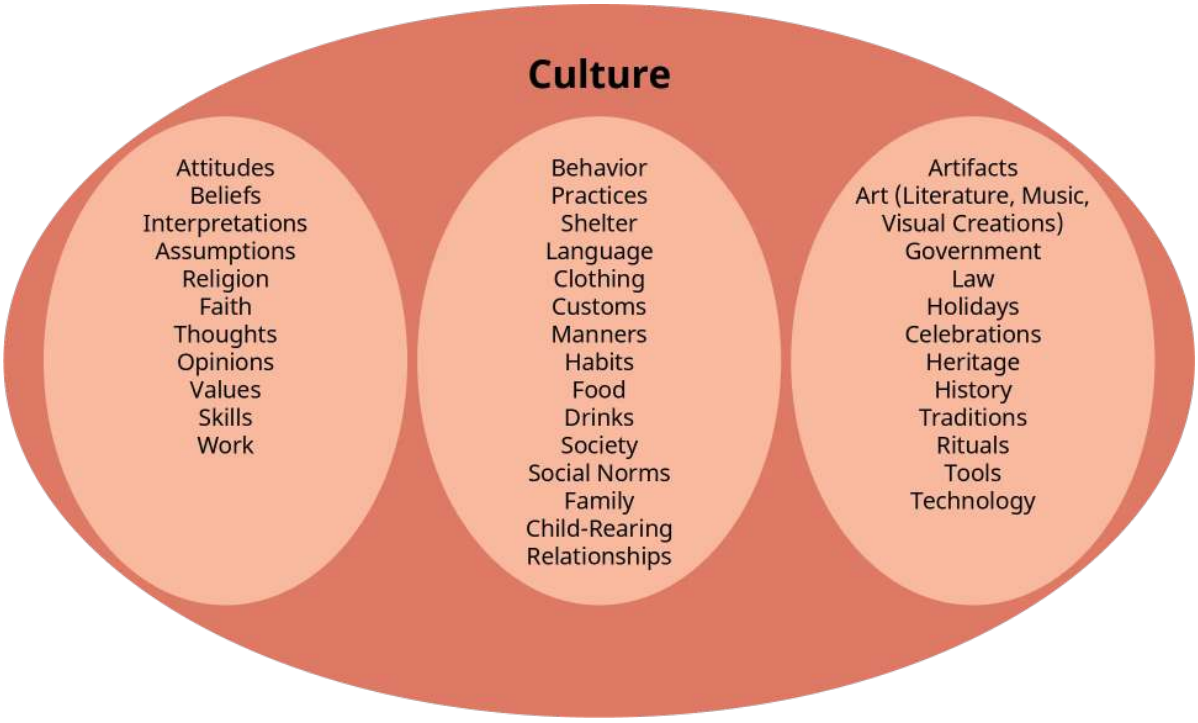


Figure 8.7 What Is Culture? (CC BY 4.0; Rice University & OpenStax)

Tangible versus Intangible Culture

Culture is both tangible and intangible. This means that it can be seen, but it can also be concealed. Anthropologist Edward T. Hall describes it as an iceberg with external and internal surfaces (Ruiz & Spínola, 2019). As Figure 8.8 depicts, some elements of culture are readily visible, like the tip of the iceberg. Traditions, music, languages, artifacts, clothing, and literature are just a few aspects that are easy to recognize. They are tangible and external. In other words, they are the conscious part of culture.

Other aspects of culture are like the bottom part of the iceberg. Did you know that 90% of an iceberg's mass is hidden below the waterline? Thought processes, assumptions, skills, beliefs, and interpretations are more difficult to observe. Can you see a person's thoughts? Can you understand a person's worldview without asking? These things happen out of sight, making them the subconscious part of culture. Intangible and internal aspects are just like the larger portion of the iceberg in that they are often beneath the surface.

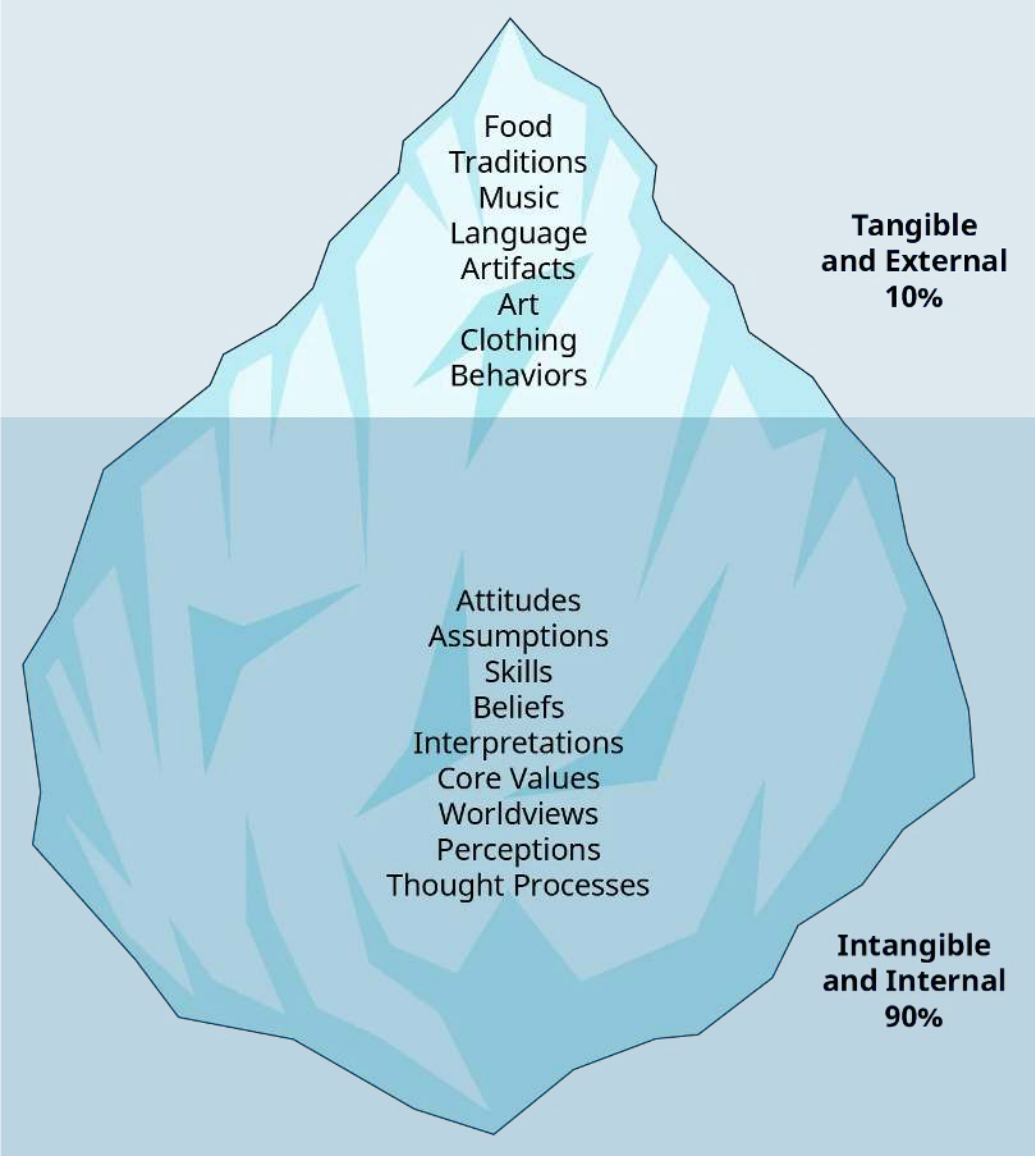


Figure 8.8 The Cultural Iceberg (CC BY 4.0; Rice University & OpenStax)

The iceberg analogy gives us a valuable lesson about cultural insights. Connecting with multicultural consumers requires understanding not only those elements of culture that can be observed but also those that are deep-seated in a specific community.

The "Texican Whopper" campaign from Burger King (see Figure 8.9) makes this point clear. Burger King was forced to revise the ads that featured a tiny Mexican wrestler dressed in a poncho-style Mexican flag standing next to a tall American cowboy. Some Spanish-speaking customers thought the campaign was funny. However, others were offended. Insights about the distaste for

stereotypes and the high respect for the flag as a national symbol could have prevented this situation. It could have also saved Burger King money because the campaign had to be redone.



Figure 8.9 Burger King's "Texican Whopper" campaign was a failure because the marketers lacked an understanding of the unseeable elements, or the internal and intangible aspects, of Mexican culture. (credit: "Burger King" by Mike Mozart, JeepersMedia/flickr, CC BY 2.0)

Main Expressions of Culture

Culture is expressed through emotional experiences, symbols, linguistic communication, values and attitudes, and other practices. Cultural expressions are a vital part of a person's identity. They provide insights about what an individual believes in or why an individual behaves a certain way. How would you perceive somebody waving an American flag on a holiday such as Memorial Day, the Fourth of July, or Veteran's Day? You would probably think the person is patriotic, right? What about somebody with a colorful sugar skull face painting on Día de Los Muertos? Or how about someone with beautifully henna-decorated hands for Diwali? Visible manifestations of culture empower people to be comfortable with personal thoughts and feelings. Visible symbols also help people to be accepted in a given community by showing solidarity.

Symbols

Symbols are essential expressions of culture that represent a group's ideologies, values, and actions. They include things such as objects, ceremonial artifacts, designs, colors, and ideas. Printed characters, words, signs, and logos can be symbols too. Even punctuation marks, or emoticons, symbolize facial expressions or people's feelings. Marketers must be careful when using symbols because they can have different representations or meanings among different cultures. For instance, the emoticon :) symbolizes happiness in the United States. However, in Japan the emoticon for happiness looks more like this (^_^) or has a triangle-shaped mouth instead of a parenthesis (University of Alberta, 2007).

In the United States, the rainbow flag and its variations are symbols of the LGBTQIA+ community. Yet, for people who emigrated from Peru or have family in the Andes, the rainbow flag symbolizes the reign of the Inca empire (Springerová & Picková, 2018). As you can see in Figure 8.10, both flags are alike but not identical (the Andean rainbow flag has two blue stripes). Despite the similarities, the rainbow flag as a symbol has a different meaning for each group.



Figure 8.10 Marketers need to be aware of what symbols mean to different groups so that they can be sure the messages they share are interpreted as intended. (credit: “Rainbow Flag” by Dave/flickr, CC BY 2.0; “Cusco-Peru” by Paulo Guereta/flickr, CC BY 2.0)

Language

Like symbols, language is an important part of culture. Language communicates personal identity. It also shapes how people perceive the world around them. Have you heard of 9Lives? It is a popular brand of cat food in the United States owned by the J.M. Smucker Company. The brand’s name comes from the popular expression that cats have nine lives. However, did you know that in Spanish and Portuguese, the expression is that cats only have seven lives? For these multicultural consumers, such language differences can influence their perceptions of the product.

Language takes verbal and nonverbal forms; it can be spoken, signed, or written. In fact, there were 7,139 living languages reported around the world in 2021, with 23 of them, in particular, adding up to a combined number of speakers totaling over half the globe’s population (Eberhard, et al., 2021). The top 15 languages in Figure 8.11 are based on the number of native- and second-language speakers in the world. Language is a main expression of culture because it provides insights to connect with audiences.



Figure 8.11 The Languages Most Spoken around the World (data source: Ethnologue, 2022; attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

As you have read, consumer diversity in the marketplace is growing. That is why marketers must conduct language research with targeted populations to avoid miscommunication or lost opportunities. This means that even within cultural groups, speech regionalisms and slang terms can affect the success of marketing campaigns (Otto, 2018).

The Hispanic population has multiple subethnicities that prove this point. Let's say that an automotive tire company wants to market its product to Hispanic consumers throughout the United States. The company could create several ad variations using words for *tire* that are popular among the subgroups. It could use the word *gomas* for Puerto Rican consumers in New York, *llantas* for Mexican buyers in Texas, *neumáticos* for Chilean clients in California, or *ruedas* for Cuban shoppers in Florida. The challenge for the company would be to decide if the effort and expense associated with creating multiple ads are justified. It should also consider if the words have other meanings among the subgroups. For example, for Puerto Ricans, *ruedas* are thin wheels, not something associated with car tires.

Values and Attitudes

Values are cultural indicators of a society's standards for goodness and justice. They are described as basic beliefs that guide behavior and give meaning to actions and attitudes. Dutch social psychologist and diversity thinker Geert Hofstede created a survey

to uncover how national culture reflects a society's values (Hofstede, 2024). Hofstede summarized the survey's findings into the following dimensions:

- **Individualism versus Collectivism.** Culture is classified as either individualistic or collectivistic. In the United States, non-Hispanic White people and individuals of European descent tend to have an individualistic view. Individualism places a higher value on personal accomplishments and individual experiences. Hispanic, Black, and Asian people lean toward a collectivistic view (Coon & Kemmelmeier, 2001). Collectivism values achieving group or family goals above those of individuals. The level of individualism versus collectivism, however, varies within multicultural segments, so it is important not to make assumptions.
- **High versus Low Power Distance.** In addition to their basic function, products can also serve to display an individual's power or position in society. Think about flip phones and smartphones. Cost-wise, the traditional flip phones are a lot less expensive in general. Yet, smartphone ownership is on the rise. This is due not only to the additional capabilities of smartphones but also to the fact that their ownership is seen as a symbol of social status. Hispanic and Black people also use smartphones more than other groups for online access to health information and educational content (Anderson, 2015).
- **Masculinity versus Femininity.** Gender can strongly impact the creative concept and messaging behind marketing promotions, ads, and social media. American society in general is masculine-oriented, with Black men having a stronger view of masculinity than their non-Hispanic White and Hispanic counterparts (Horowitz, 2019). Achievement, power, and strength are considered masculine traits. For this reason, the message of many ads in the United States is about product performance and functionality. Some Asian groups, such as Japanese and Chinese, are also masculine-oriented. However, other Asian subgroups are considered more feminine-oriented (Culture Factor Group, 2023). For these consumers, visual ads that emphasize quality of life, people, and relationships would have a higher appeal.
- **Uncertainty Avoidance.** A high dislike for ambiguity and the unknown is not just an individual trait; it is a characteristic of societies in general. Cultures that do not tolerate uncertainty well seek safety and rules to reduce anxiety. These cultures also embrace technology to feel safer, which might explain why Hispanic people are such quick adopters of it. Black and Asian people also tend to avoid uncertainty and high risks more than non-Hispanic White people (Hofstede et al., 2010).
- **Long-Term versus Short-Term Orientation.** This dimension describes how individuals believe and behave in society. It is also based on links to the past and challenges in the future. Cultures with long-term orientation value perseverance, orderliness, thriftiness, and having a sense of shame. Asian people, overall, rate extremely high in the long-term orientation (Change Factory, 2021). Short-term cultures, on the other hand, focus more on personal steadiness, happiness, and stability. The challenge for marketers is to balance orientations to successfully reach diverse audiences and influence consumption.
- **Indulgence versus Restraint.** Societies that prioritize satisfaction, leading a happy life, and savoring leisure activities with family and friends are described as indulgent. On the other hand, societies that favor living according to strict traditional norms and curbing life's enjoyment are seen as restrained.

How Culture Influences Diversity Marketing

Identifying multicultural population segments and engaging them with intentional efforts is at the core of multicultural marketing. However, this requires having cultural insights because culture influences consumers' decision-making processes and purchasing behaviors. The lack of cultural insights can spell disaster when marketing to this audience.

Let's look at some cultural perspectives about living experiences, outlook, and community involvement. Living in the present moment and sharing situations with loved ones is an important goal to 42% of Hispanic people compared with only 23% of non-Hispanic White people (Tomashevska, 2018). Based on this insight, marketers targeting Hispanic consumers should create advertisements that feature meaningful messages and friendly people sharing a profound experience instead of simply showing the features of a product or service.

Hispanic, Black, and Asian consumers, overall, are more optimistic than non-Hispanic White consumers. In a study about their financial outlook, multicultural consumers were twice as optimistic as non-Hispanic White consumers about reaching economic success in their lifetime. As members of collectivistic-oriented cultures, they also think more about family and community when making financial decisions. Moreover, when it comes to community, Hispanic and Black consumers believe more can be achieved by working together than non-Hispanic White consumers (Tomashevska, 2018).

These insights suggest that expressions of culture and elements such as confidence, hope, and teamwork are crucial for implementing multicultural marketing campaigns. As you read earlier, multicultural marketing is a subcategory of diversity

marketing. This means that culture has a significant impact on diversity marketing as well.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Culture is described as which of the following?

a. Social norms, beliefs, and accomplishments of particular individuals
b. Elements taught or passed down from one generation to the next
c. Something that influences consumers' decision-making processes and purchasing behaviors
d. All of these

2.

Which of the following are not examples of tangible or external expressions of culture?

a. Actions and behaviors
b. Traditions and customs
c. Values and attitudes
d. Music and visual arts

3.

Marketers must be careful when using symbols as cultural expressions because _____.

a. there are too many to choose from among different cultures
b. they can have different meanings among different cultures
c. they can have similar meanings among different cultures
d. they are verbal and nonverbal forms of communication

4.

An advertisement that appeals to personal accomplishments, independence, and assertiveness is an example of which of Hofstede's cultural dimensions?

a. High power distance
b. Masculinity
c. Individualism
d. Long-term orientation

5.

An advertisement that is visually appealing and emphasizes quality of life, people, and relationships is an example of which of Hofstede's cultural dimensions?

a. Femininity
b. Masculinity
c. Uncertainty avoidance
d. Short-term orientation

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8.5: Marketing to Hispanic, Black, and Asian Consumers

Learning Objectives

By the end of this section, you will be able to

- Describe the Hispanic, Black, and Asian identities.
- Define acculturation.
- Explain how identity-related characteristics and factors connect Hispanic, Black, and Asian consumers.
- Describe how to market to Hispanic, Black, and Asian consumers.

Hispanic, Black, and Asian Consumer Identities

The United States is a mixture of nationalities, backgrounds, cultures, and identities. This mixture has been shaped through many decades of immigration from people across many lands and by their interactions with their new environments. The U.S. population is often referred to as consisting of majority and minority groups. The majority consists of non-Hispanic White people. The minority consists of other races, ethnicities, and communities. From a marketing standpoint, companies have historically treated the majority segment as the mainstream market. Conversely, the minority segment has been treated as a subgroup of consumers or the multicultural market.

As you read earlier in the chapter, the demographics of the United States continue to change, and the majority segment will cease to exist in the future. The country is expected to become a "plurality nation" by 2050. This means that no group will have a *sizeable* majority. The non-Hispanic White population is projected to remain the largest single group (United States Census Bureau, 2012). However, the majority position will be lost in terms of population percentage. Check out Figure 8.6 again to compare the overarching segments.

Hispanic Identity

Let's examine the data from the 2020 U.S. Census to better understand Hispanic consumers. The Hispanic population reached over 63 million people in 2020. Is this number significant? Yes, because it means that one out of every five people in the United States is Hispanic or of Hispanic descent. This is a 23% growth since the previous census! In fact, the Hispanic population has grown significantly in the last four decades. The Hispanic population is projected to reach almost 100 million individuals by 2050.

Hispanic people are not a uniform group or single ethnicity. On the contrary, the Hispanic population in the United States is very diverse. Hispanic people originate from 20 different countries, as shown in Figure 8.12, and can belong to any race. An overwhelming 83% of the Hispanic population belongs to just five subethnicities. These subgroups are Mexican (62.2 percent), Puerto Rican (9.5 percent), Cuban (3.9 percent), Salvadoran (3.9 percent), and Dominican (3.5 percent) (Noe-Bustamante, 2019). The rest of the population is made up of the other 15 Hispanic subethnicities.

You are probably familiar with the terms *Hispanic*, *Latino/Latina*, and *Latinx*. They are often used interchangeably but can have different meanings. *Hispanic* is a language-based term that describes individuals from a Spanish-speaking country. *Latino/Latina* is a location-based term that identifies gendered individuals whose families originate in Latin America regardless of the language they speak. For example, a person from Spain is considered Hispanic because of language but not Latino because of location. A person from Brazil is considered Latino/Latina because of location but not Hispanic because of language (Brazilians speak Portuguese). Unlike *Latino/Latina*, the term *Latinx* is gender neutral. While *Latinx* has picked up momentum among some groups, many Hispanic people dislike the word or find it offensive.

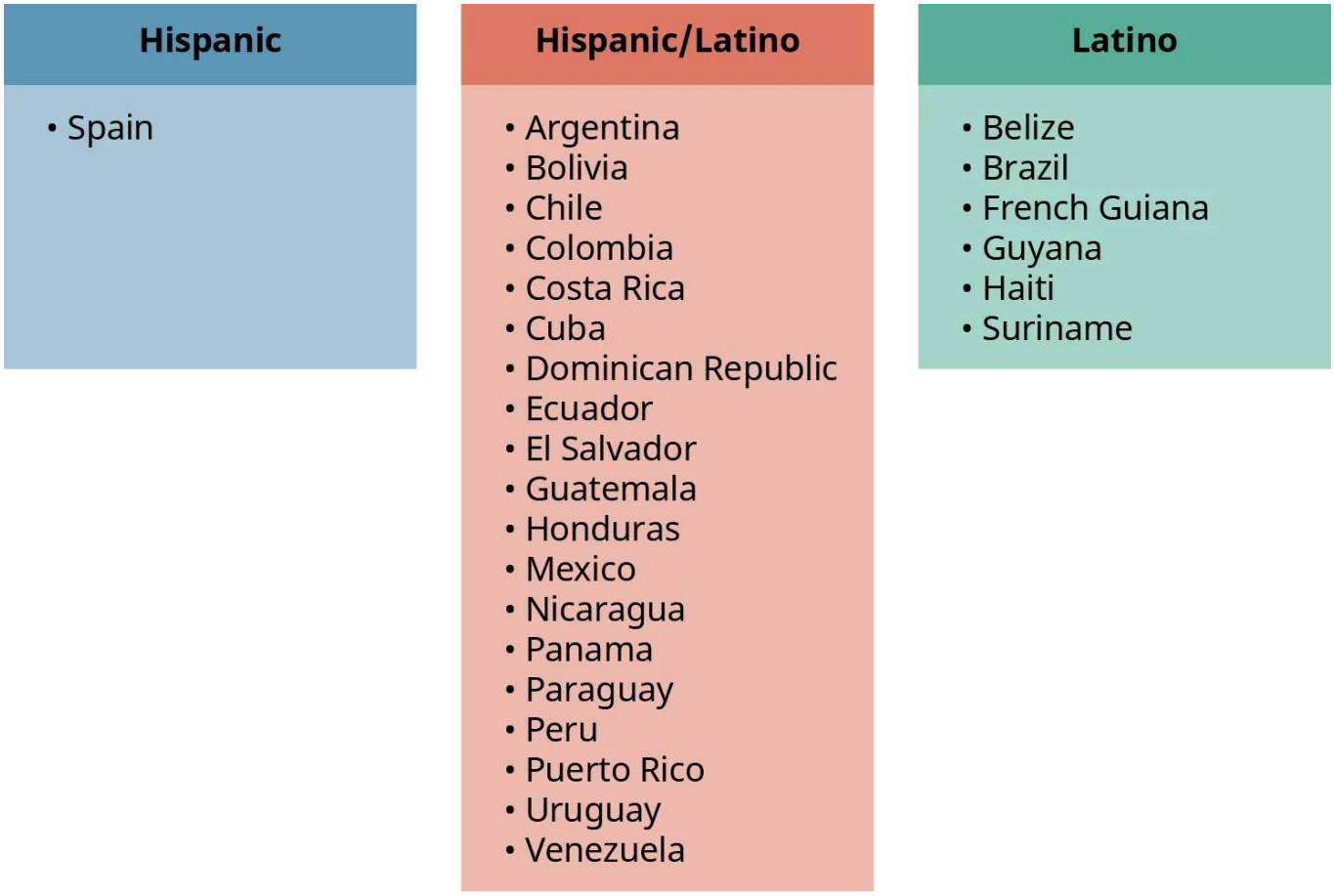


Figure 8.12 Hispanic People and Latinos in the United States by Country of Origin (CC BY 4.0; Rice University & OpenStax)

Many cultures integrate traditions in their lives as the generations progress. Hispanic people demonstrate this same movement of traditions, from their countries and cultures of origin into their family practices in the United States. Why is that? It has to do with identity. Identity is a person's self-image. Cultural identity, in particular, is how a person identifies with a given culture, ethnicity, or social group. It is a sense of belonging that influences personal thinking and actions.

For the majority of Hispanic people, identity is strongly linked to heritage or to their family's country of origin (Taylor et al., 2012). Customs and social practices are strong components as well. To increase its connection with these consumers, Target (see Figure 8.13) appealed to the Hispanic identity with its *sobremesa* commercial. The *sobremesa* is the additional time spent at the dinner table with friends and family after a big meal for relaxing or having meaningful conversations. This Hispanic tradition does not have a direct translation in terms of American culture. Target created the hashtag *#SinTraducción* for the campaign, which means "without translation" to further emphasize this. Target also used "There will always be a part of you that simply doesn't translate" as the slogan for social media outreach. The commercial is part of the retailer's first campaign ever aimed directly at Hispanic millennials.



Figure 8.13 Target created the *sobremesa* commercial as a way to appeal to the Hispanic identity. (credit: "Target" by Mike Mozart, JeepersMedia/flickr, CC BY 2.0)

Link to Learning: Target "Sobremesa" Commercial

Target's "Sobremesa" commercial shows an entire Hispanic family sitting at the table clearly *after* the meal has ended to share desserts and enjoy fun conversation as a group.



Black Identity

Black people are the second largest multicultural group in the United States after Hispanic people. Let's consider the statistics from the 2020 U.S. Census again. The Black population shows growth at 46.8 million people in 2020 versus 38.9 million people a decade earlier. Black consumers make up 14.2% of the country's total inhabitants. Another key point is that individuals who identify as Black in combination with another race have increased 88.7% since the last census. This "in combination" trend is not unique to the Black community; the "in combination" identification accounted for the majority of the changes in all the racial categories (Jones et al., 2021).

This multicultural segment shows a couple of other interesting changes that impact consumer and consumption behaviors. For example, Black consumers are forecasted to account for 15–17% of the total population growth in the nation over the next decade. Black people have also had the largest change in education level in recent years. Since the 2010 census, the percentage of Black people with an undergraduate degree has increased by more than 55% (Tamir, 2021).

Although Black people account for 14.2% of the population, this segment makes up just under 10% of spending on goods and services. This is because Black workers earn a lower median income than other demographics. However, this inequity in spending and wealth is showing signs of moving toward a better balance. Management consulting firm McKinsey estimates the growing Black population to represent over $300 billion annually in unmet demand (Chui et al., 2021).

A 2019 survey by the Pew Research Center shows that nearly 75% of Black people believe that race is at the center of their identity (Barroso, 2020). Race is deeply tied to how people perceive themselves. When it comes to defining the Black identity further, the community is also facing a unique challenge. There is a growing argument in the United States over differences between Black people who emigrated from Africa and those who did not. The debate is caused by the ancestral link to slavery that many American-born Black people have but immigrants do not. Moreover, Black people can also have other subethnicities such as Black Hispanic and multiracial (White, Asian, or Native American). While the subethnicities may not be physically visible, marketers need to be aware that identity differences can be significant among the Black population.

These multicultural consumers also feel relatively well connected to the broader Black community and prioritize social activities that offer support to the group as a whole. To show solidarity with the BLM movement, popular ice cream brand Ben & Jerry's (see Figure 8.14) named one of its flavors "Justice ReMix'd" to raise awareness of racism and criminal justice reform. The company worked with the Advancement Project national office to advocate for social change and civil rights. Ben & Jerry's also enacted a multipoint corporate plan challenging other companies to champion the cause and join the conversation about racial inequalities.



Figure 8.14 Ben & Jerry's created a new flavor of ice cream as a way to connect with the Black Lives Matter movement and raise awareness around racism and criminal justice reform. (credit: "Peace, Love & Ice Cream" by Rob Olivera/flickr, CC BY 2.0)

Asian Identity

The Asian population in the United States has also increased since the last census. This growth has been fueled largely by foreign-born individuals. There were 19.9 million people in 2020 who identified as single-race Asians. This number is up from 14.7 million a decade earlier. There were also 4.1 million people in 2020 who identified primarily as Asian "in combination" with another race. In fact, this combination of single race and mixed race increased a whopping 55.5% from 2010 to 2020, making it one of the fastest-growing demographic segments (Jones et al., 2021). Overall, the Asian population in the United States is 24 million individuals, which is 7.2% of the total country's inhabitants. The U.S. Census Bureau projects this multicultural community to more than double by 2060.

Like the Hispanic population, the Asian population is very diverse too. Figure 8.15 shows the 22 different subethnicities that make up these multicultural consumers. Did you know six of these origin groups account for 85% of the Asian American community? These groups derive from the Asian continent and the Indian subcontinent. These origin groups are Chinese (24 percent), Indian (21 percent), Filipino (19 percent), Vietnamese (10 percent), Korean (9 percent), and Japanese (7 percent) (Budiman & Ruiz, 2021). The remainder of the Asian people come from Native Hawaiian, Pacific Islander, and other subgroups.



Figure 8.15 Groups of Origin for the Asian Population in the United States (CC BY 4.0; Rice University & OpenStax)

The geographic distribution of this population is worth noting. There are over 9.8 million Asian people living in the western region of the country. This is nearly half the entire Asian population! Moreover, almost one-third of Asian consumers live in California alone, making Asians one of the state's largest population segments. The southern states have the second largest Asian population with 5.3 million individuals. Overall, Asian people are projected to be the largest source of immigrants by 2055, accounting for 36% of all immigration, followed by Hispanic people at 34% (Budiman & Ruiz, 2021).

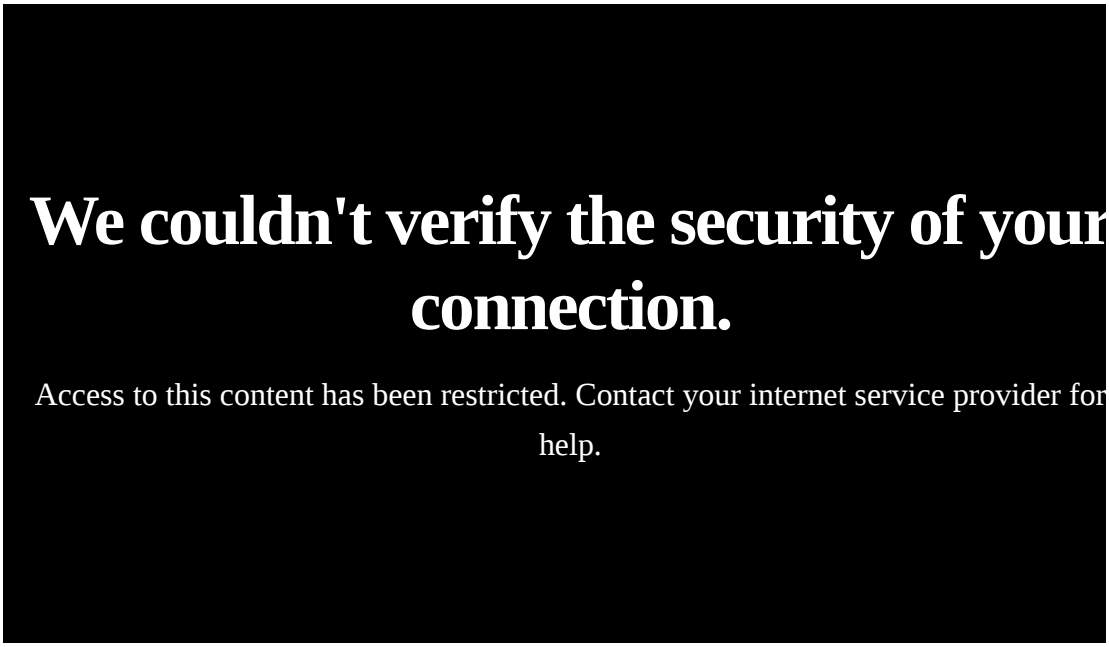
As an immigrant group, Asian people have the fastest adoption rate of the English language. Almost 75% of Asian households speak English, and nearly two-thirds of American-born Asians speak English only. Asian people are also more likely than the average American household to live in a multigenerational setting (Budiman & Ruiz, 2021). Because of their diversity and unique characteristics, it is difficult to narrow it down to a uniform Asian identity. This poses a challenge for marketers. Creating generalized messages for Asian people or having a "one size fits all" marketing approach is unwise. Plus, making assumptions about consumers' purchasing behaviors as a singular market can be very tricky, if not inadvisable, because there is not a sole Asian cultural identity.

A 2019 survey about race found that 56% of Asian people said race was a key part of their identity (Barroso, 2020). Using this insight, Nike created two different—but very effective—commercials targeting different subsegments of Asian consumers. Nike's "The Great Chase" is inspired by the longtime Chinese tradition of gifting money in little red envelopes.

Link to Learning: Nike

Check out the "Great Chase" commercial and compare it to the upbeat "Da Da Ding" commercial featuring Indian women practicing many types of sports.





Nike 'Da Da Ding' - Director: Francois Rousselet from Tom Lindsay on Vimeo.

The Acculturation Spectrum

People who immigrate to the United States from another country will probably experience some personal level of acculturation. Even American-born multicultural individuals whose families speak another language at home besides English may also experience acculturation. Acculturation is the process by which a person's family cultural patterns change because of direct and constant contact with a different culture (Wan-Hsiu Sunny & Cong, 2012). Acculturation can happen in various degrees. The spectrum ranges from complete adoption to total rejection of the new culture. Individuals that simultaneously merge both cultures in daily life are considered bicultural.

Hispanic and Asian consumers can experience various degrees of acculturation. This depends on birthplace, immigration status, community connections, and personal comfort level. For instance, a person born in the United States to immigrant parents is more likely to be acculturated than unacculturated. For marketers, being aware of acculturation levels is important because they play a significant role in how these multicultural consumers respond to marketing messages. Here is another example. Hispanic people in general think of language as a tool to preserve the culture. As a result, unacculturated Hispanic consumers are more likely than acculturated consumers to support a brand that advertises to them in the Spanish language. This effort is seen as a sign of respect and appreciation (Wan-Hsiu Sunny & Cong, 2012).

Identity-Connecting Characteristics and Factors

The Hispanic, Black, and Asian populations each have a general set of cultural characteristics based on their multicultural identities. Being aware of each segment's personal characteristics helps marketers create effective marketing promotions and advertisements. In addition to internal characteristics, these consumers are also influenced by external factors such as social circumstances and market behaviors. Let's explore characteristics and factors in more detail.

Hispanic Consumers

Hispanic consumers in general are optimistic, family-oriented, warmhearted, and hospitable (Pew Hispanic Center, 2009). The culture's energy and liveliness are visible through elements such as music, food, decor, and language. Hispanic people place a high value on relationships and social interactions. Have you noticed that some commercials aimed at Hispanic consumers show people in close proximity, touching, or hugging? Physical contact is important to this multicultural segment. It is seen as a way to build trust and group harmony. Did you notice it in Target's *sobremesa* commercial?

Hispanic consumers support brands that demonstrate cultural authenticity, transparency, and honesty. After all, openness and having meaningful connections are at the heart of these consumers' values. In terms of factors, the concept of product quality and service quality is deeply desirable to Hispanic consumers. Have you heard of Hispanic actress Jessica Alba? Alba, who is of Mexican descent, founded The Honest Company (see Figure 8.16) in 2012 with the mission of formulating safe, high-quality personal and beauty products for the family. Other factors that influence Hispanic consumers include companies' pledges to sustainability and social responsibility. Indeed, these are growing concerns that shape this community's purchasing behaviors.



Figure 8.16 Hispanic consumers support products that demonstrate the qualities that are important to them—optimistic, family-oriented, warmhearted, and hospitable—which is why the Honest Company's message of safe products for the family resonates. (credit: "A Few of My Favorite Things: Honest Company" by Abi Porter/flickr, CC BY 2.0)

Black Consumers

Two noteworthy characteristics of Black consumers in general are determination and self-expression. As you read earlier in the chapter, race is a key component of the Black identity. The social, educational, and economic struggles that Black people have faced because of racial discrimination and injustice have made these consumers highly determined to pursue their dreams regardless of the obstacles encountered. Self-expression is also a significant cultural trait. It is a way to show personal pride in one's identity. Among Black consumers, self-expression is typically conveyed through fashion, music, sports, and the arts.

Like Hispanic consumers, Black people are optimistic and resilient. Strong community bonds, observance of religious practices, and deep commitments to social activism are factors closely linked to Black consumers' identities. The opportunity to raise a collective voice about key issues is a fueling factor too. In 2020, Beats by Dre launched the "You Love Me" campaign (see Figure 8.17).

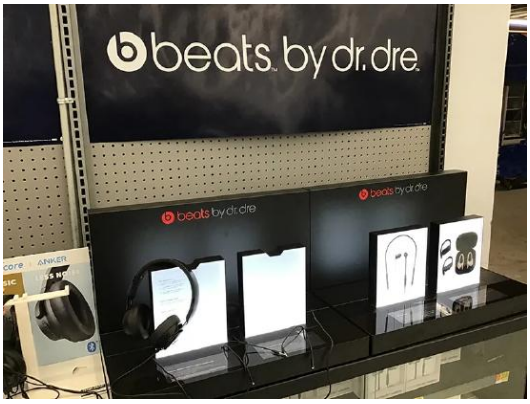


Figure 8.17 Beats Electronics, founded by Black rapper Dr. Dre, launched its “You Love Me” campaign in 2020. (credit: “Beats by Dr Dre” by Mike Mozart, JeepersMedia/flickr, CC BY 2.0)

Link to Learning: Beats by Dr. Dre

Beats is a leading manufacturer of audio products co-founded by Black rapper Dr. Dre. The two-minute commercial plays on the audio pun and challenges viewers to emotionally listen by asking the question “You love Black culture, but do you love me?”



Asian Consumers

Asian cultures are steeped in rich traditions and customs. Asian consumers are very proud of their heritage, and at the same time, they identify well with the American culture. Asian people share this cultural duality characteristic with Hispanic people. Cultural duality is not the same thing as acculturation. Cultural duality happens when an individual’s cultures overlap with each other, and the person feels a sense of belonging to both simultaneously. Did you know that almost 50% of Asian consumers in the United States watch TV in both English and in an Asian language (Nielsen, 2016)? This helps them stay current with American culture while keeping connected with their native culture.

Shared societal values are a trait that influence people’s behaviors. One of these is collectivism. Think about Hofstede’s cultural dimensions, individualism versus collectivism in particular. Collectivism places more emphasis on group activities than on individual ones. Overall, Asian societies are collectivistic, though the degree of collectivism varies among the populations’ countries of origin (Kawamura, 2012). Cultural celebrations are also a factor linked to identity. Instacart, Target, Wells Fargo, and Toyota are just a few companies marketing to Asian consumers in the United States using traditional festivities like Diwali and Lunar New Year to appeal to the group’s collectivism.

Link to Learning: Asian Celebrations

Two examples posted on social media platforms are Wells Fargo’s Happy Lunar New Year on Instagram and Toyota’s Diwali tweet on X (Twitter).

Marketing to Hispanic, Black, and Asian Consumers

As you have seen, marketing to each of these multicultural segments is unique. Marketers must do the research and understand the demographics, cultures, identities, and group characteristics of these targeted consumers. It is equally important to recognize that none of these elements are static. They are dynamic and interact with one another.

Being successful with multicultural marketing, and ultimately with diversity marketing, includes many factors. Success also requires connecting with each consumer segment on a personal and intimate level. This inevitably means that marketers must recognize the similarities and differences between the cultural identities that shape daily life experiences in the United States.

In the upcoming decades, the meaning of the terms *minority* and *majority* segments are going to wane in significance. Groups that have been historically classified as the minority market will grow, while the group historically classified as the majority will shrink in size. This sets the stage for a future of a "plurality nation," further emphasizing the importance of multicultural trends and diversity marketing.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Which of the following is the largest segment of multicultural consumers in the United States?

a. Asian population
b. Black population
c. Hispanic population
d. Native American and Alaskan Native population

2.

Which ethnic term can be used for a person from Puerto Rico or of Puerto Rican descent?

a. Only Hispanic
b. Both Hispanic and Latino/Latina
c. Only Latino/Latina
d. None of these terms are correct.

3.

Acculturation is the process by which a person's family cultural patterns change because of direct and constant contact with _____.

a. their home culture
b. a different culture
c. many cultures simultaneously
d. a high degree of global travel

4.

Regarding cultural identity, which of the following do the overwhelming majority of Black people believe is a major contributor and attribute?

a. Cultural duality and relationships
b. Education and income level
c. Immigration status and conventionality
d. Race and community

5.

Effectively marketing to Hispanic, Black, and Asian consumers requires _____ with each multicultural demographic and understanding _____.

a. connecting; segmentation
b. surveying; advertising
c. using influencers; social media
d. using culturally relevant idioms; fun advertising

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8.6: Marketing to Sociodemographic Groups

Learning Objectives

By the end of this section, you will be able to

- Define sociodemographic marketing.
- Explain how to market to the LGBTQIA+ community.
- Explain how to market based on generational differences.
- Explain how to market to consumers with disabilities.
- Describe how sociodemographic trends will impact future marketing.

Sociodemographic Marketing

As defined earlier in the chapter, the term *sociodemographics* is the combination of two distinct factors—social and demographic—within a given population. This combination results in a set of quantifiable variables for narrowing down customers in a large market. Social variables can be quite literally *anything* with which people identify. In other words, social variables are associated with identity. Because of that, they can include racial and ethnic identities too. Social variables are broad and can feel loosely defined. However, it is this unstructured nature that often provides important insights for marketers. Demographic variables, on the other hand, are more specific or have precise descriptions. These include things such as gender, age or generation, religion, marital status, income, employment, education, political affiliation, disability, and more.

As you have already read, sociodemographic marketing is a subcategory of diversity marketing (refer back to Figure 8.4). It intentionally targets certain audiences with attractive advertising and promotions based on shared social and demographic variables. Overlaying these two factors has several worthwhile benefits for marketers. One of them, for instance, is that it makes it easier to detect market trends and shopping patterns based on a large number of consumers with variables in common. Such findings are indispensable for marketers to gauge the financial and emotional impact of their marketing efforts.

Another benefit is that sociodemographic marketing creates valuable opportunities for reaching historically underrepresented individuals or underserved communities. This outreach is significant because it demonstrates companies' commitments toward a more diverse and inclusive market. Sociodemographic marketing also enables marketers to adapt products, services, and messaging to be more effective for both businesses and consumers.

Marketing to the LGBTQIA+ Community

The LGBTQIA+ population is composed of consumers who express a diversity of gender identities, preferences, and sexual orientations. The acronym stands for lesbian, gay, bisexual, transgender, queer/questioning, intersex, and asexual. The plus sign (+) represents other sexual identities as well as allies who are not LGBTQIA+ members but support the community's cause. The acronym has evolved over the decades to become more inclusive and capture diverse relationships, expressions, and identities.

The LGBTQIA+ community in the United States is growing. In 2012, only 3.5% of Americans self-identified as LGBTQIA+. American analytics company Gallup shows this number increasing to 5.6% in 2020 (see Figure 8.18). Did you know that one in six adults in Generation Z (born between 1997 and 2012) identifies as LGBTQIA+ (Jones, 2023)? This indicates a growth trend reaching toward 16% in the future as other generations age out.

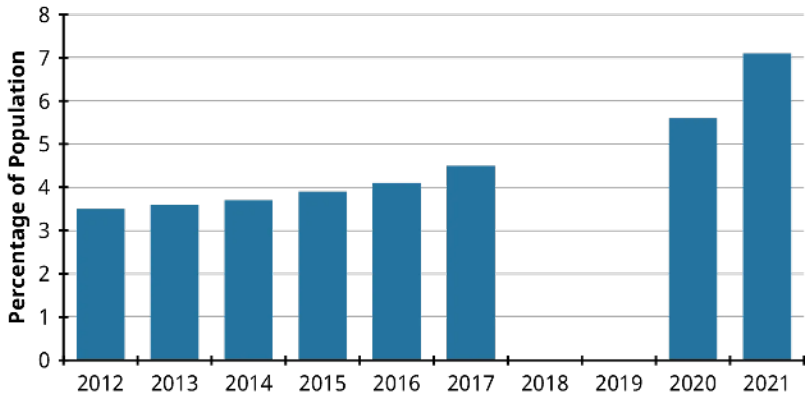


Figure 8.18 Americans' Self-Identification as LGBTQIA+ (data source: Gallup [survey data not available for 2018–2019]; attribution Copyright Rice University, OpenStax, under CC BY 4.0 license)

You might be wondering what is driving this growth. Some of it is attributed to greater confidence in both societal acceptance and the ability to find support within the LGBTQIA+ community itself. Sociologists and psychologists have known for a long time that a sense of belonging, whether to a family or a social group, is essential for normal and optimal human functioning. Therefore, the growth of the LGBTQIA+ community is also partly the result of this human need to belong. Moreover, it is driven by a political and sociological need to be represented and treated fairly.

For marketers, focusing on the societal experience around belonging (acceptance, welcoming, support, and inclusion) is key for reaching the growing number of LGBTQIA+ consumers. Global furniture giant IKEA (see Figure 8.19) understands this very well. In 2021, IKEA promoted the #ProgressIsMade campaign in the United States during the entire month of June. The campaign featured rainbow-themed products such as tote bags and an audio speaker cover. IKEA donated up to $50,000 in proceeds from these limited-edition products to LGBTQIA+ nonprofit organization GLSEN. In Canada, IKEA displayed 10 different loveseats at select stores as concept art inspired by Pride flags to increase its support for inclusion during Pride month.



Figure 8.19 IKEA's #ProgressIsMade campaign in the United States focused on the societal experience of belonging for LGBTQ+ consumers. (credit: "IKEA" by Rob Olivera/flickr, CC BY 2.0)

Link to Learning: IKEA Loveseats

Learn more about the IKEA loveseat collection and see the designs by reading these articles:

- Insider
- Newswire
- NBC News
- Muse by Clio

What can marketers do to be more successful in advertising to LGBTQIA+ consumers? Consider the following steps. First, review the company's values and have an open and honest conversation with leadership about authentic support of the LGBTQIA+ community. After all, genuine care and inclusiveness are the base for all marketing efforts. Second, establish guidelines for speaking with and about the LGBTQIA+ community. This means marketing communications words, tone, imagery, and core messaging. Third, find experts to provide advice and insights into the community. This reduces the possibility of unknowingly offending this consumer segment. Using group members for brainstorming and evaluation is extremely helpful, too. Fourth, test and verify that products, services, and messaging are perceived as designed.

Marketing to the Generations

Age is a frequently used demographic statistic for segmenting populations. Age is also expressed or compared in terms of generational groups. This approach enables marketers to capture a larger number of consumers by grouping them into defined categories.

You read earlier in the chapter about these categories: Silent Generation, baby boomers, Generation X, millennials, Generation Z, and Generation Alpha. Figure 8.20 shows these generations based on their percentage among the American population. Think about this. A member of Generation Alpha (people born between 2010 and 2025) is born every *nine seconds* in the United States. This generation is expected to account for 2 billion individuals worldwide by 2025 (The Annie E. Casey Foundation, 2020)! Grouping consumers into generational segments helps maximize marketing efforts and reach a larger portion of the total market.

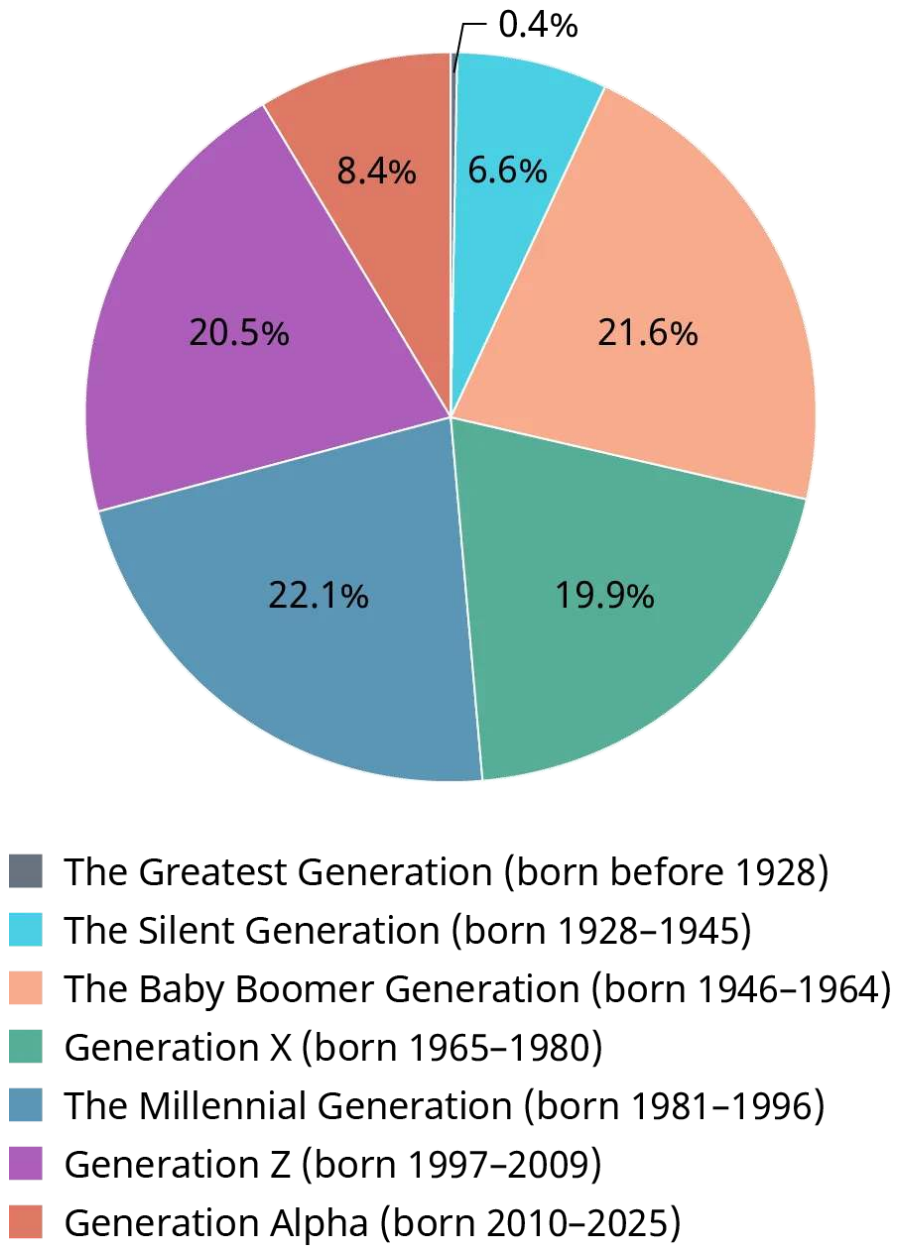


Figure 8.20 Distribution of Generations in the United States (data source: Statista; attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Marketers must keep in mind that each generation has unique life experiences built on social, economic, and political dynamics associated with their formative years. These experiences influence each generation's views and values, subsequently impacting their consumer behaviors. Let's consider Generation Z and Generation Alpha again. Members of both generations are highly technologically literate. The COVID-19 pandemic's aftermath has directly impacted them in terms of remote learning and reduced face-to-face interactions. Consequently, this "lockdown generation" has spent more time engaged with social media and virtual environments. Marketers must consider how such situations will influence these generations' shopping behaviors and consumption patterns.

Many factors can be combined with a generational view of consumers. Economic influence is one of the more useful for marketers to remember. Figure 8.21 shows the wealth distribution by generation in the United States as of 2020. This chart tells a significant story.

Until 2008, the Silent Generation and earlier generations controlled a relatively equal amount of wealth. Two primary factors gradually shrank the amount of wealth of these consumers: natural mortality and the 2008 recession. Conversely, the wealth of

baby boomers grew. In fact, many have said that the Boomer Generation is the wealthiest generation to have ever lived. Generation X's wealth started to grow in 2015, but the ability of this generation to build riches has slowed down compared with preceding generations. Millennials' wealth building appears to be even slower (see Figure 8.22).

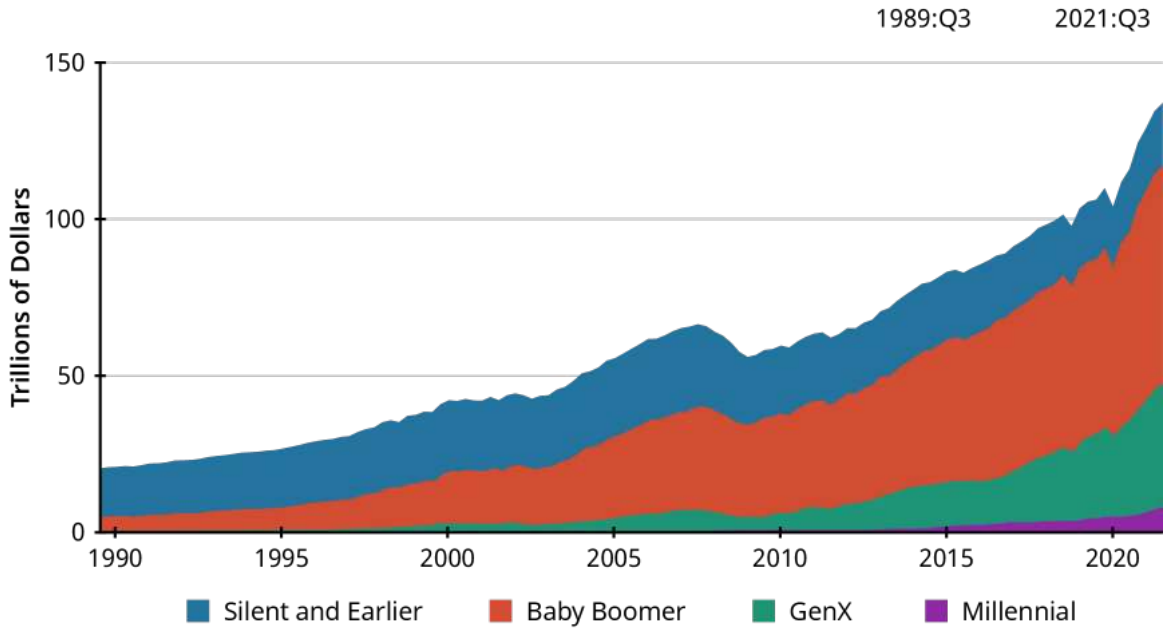


Figure 8.21 Wealth Distribution by Generation (data source: Board of Governors of the Federal Reserve System/federalreserve.gov, Survey of Consumer Finances and Financial Accounts; attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

What does this mean? Wealth and income level play a role in people's spending decisions, so marketers need to understand how they are shaped by generational groups. Here are some steps to consider to be more successful in advertising to consumers based on their generations. First, use deeper and more extensive combinations of sociodemographic variables. Grouping by generation alone is likely not enough. Adding another variable, such as income, education, or social markers, may prove useful. Second, use focus groups and individuals who fit the target group to provide direct input and ideas. Third, consider adapting the marketing communication to fit the norms of each generation. Fourth, test and verify that products, services, and messaging are perceived as designed.

Marketing to Consumers with Disabilities

Americans with disabilities make up a much larger segment of the market than you might realize. There are approximately 61 million Americans with disabilities. That number is over 18% of the total population of the United States. When the word *disability* is used, many people usually visualize a mobility difficulty such as having trouble walking or climbing stairs. However, as seen in Figure 8.22, functional mobility makes up less than a third of the different types of disabilities. Other forms include cognitive or neurological, autonomous living, and sensory-related. This makes consumers with disabilities a very diverse group, too.

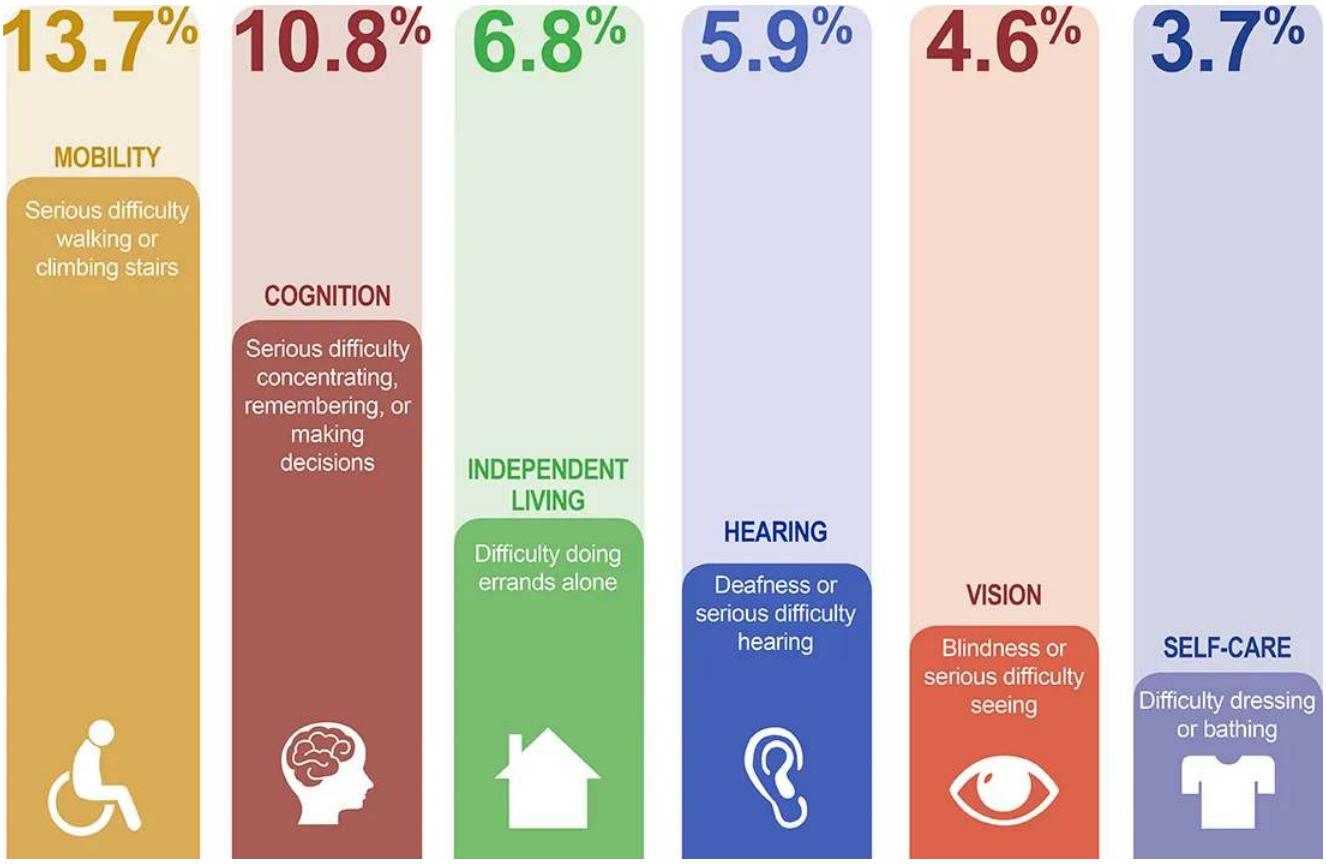


Figure 8.22 Percentage of Adults with a Functional Disability (credit: "Percentage of adults with functional disabilities" by Centers for Disease and Control and Prevention/CDC.gov, Public Domain)

Disability is more frequent in adults over the age of 65 and in women. Among racial and ethnic segments, it is more common in non-Hispanic, Native American, and Alaskan Native people. Adults living with a disability are also more likely to be obese, smoke, have heart disease, and have diabetes (Centers for Disease Control and Prevention, 2023). While disabilities are very often important and impactful aspects of people's lives, people with disabilities have many defining characteristics, goals, needs, and identities.

How can marketers best reach consumers with disabilities? By using an approach that ensures the company's efforts express humanity, authenticity, and inclusivity. Let's look at a couple of examples. In January 2019, a picture from a bridal boutique's window display went viral due to its powerful inclusivity message. The display showed a mannequin in a wheelchair dressed in a wedding gown. In February 2022, Hispanic model Sofia Jirau made history as the first person with Down syndrome to become a model for Victoria's Secret. These examples demonstrate that people with disabilities are not only part of our social fabric but also are an integral part of the overall market.

Other suggestions for marketers consist of ensuring that disabilities are properly represented. This means consulting or hiring individuals who have a disability rather than using actors or models who do not. Marketers also need to keep in mind how disabilities affect marketing communications. In other words, think about closed captioning on videos or the use of alternative text on images for websites. The types of disabilities are diverse, so marketing initiatives must also be diverse. That is what makes sociodemographic marketing a subset of diversity marketing.

Developing Sociodemographic Trends and Their Future Impact

Discovering sociodemographic trends takes an enormous amount of study. To do an effective job, marketing researchers are constantly working with a multitude of variables. They set parameters, collect data, analyze it, and come up with ideas based on results. This work is done repeatedly over time. It is precisely the extended time frame that enables marketing researchers to see market patterns surface. Let's check out some current trends that will have a future impact for companies and marketers in general.

Population Stagnation

The population has been growing around the world at historically unprecedented rates for many years now. Yet, several sources claim it will decline globally around the middle of the 21st century (The Lancet, 2020). The United States has already been experiencing a relatively steady population growth decline—or population stagnation—according to trends from the U.S. Census Bureau. In fact, the American growth rate has slowed to its lowest point in over 120 years. If this trend continues, the United States will see its first net population decrease in the next few years (Rogers, 2021).

Marketers need to consider the sociodemographic factors contributing to this trend: births, deaths, and international migration. No doubt COVID-19 has impacted the death rate, which was already fueled by the growth deceleration from years earlier. Figure 8.23 illustrates the population changes in the United States through 2021 based on some of these factors. The rapid percentage change in 2020 and 2021 is probably due to the pandemic's effect.

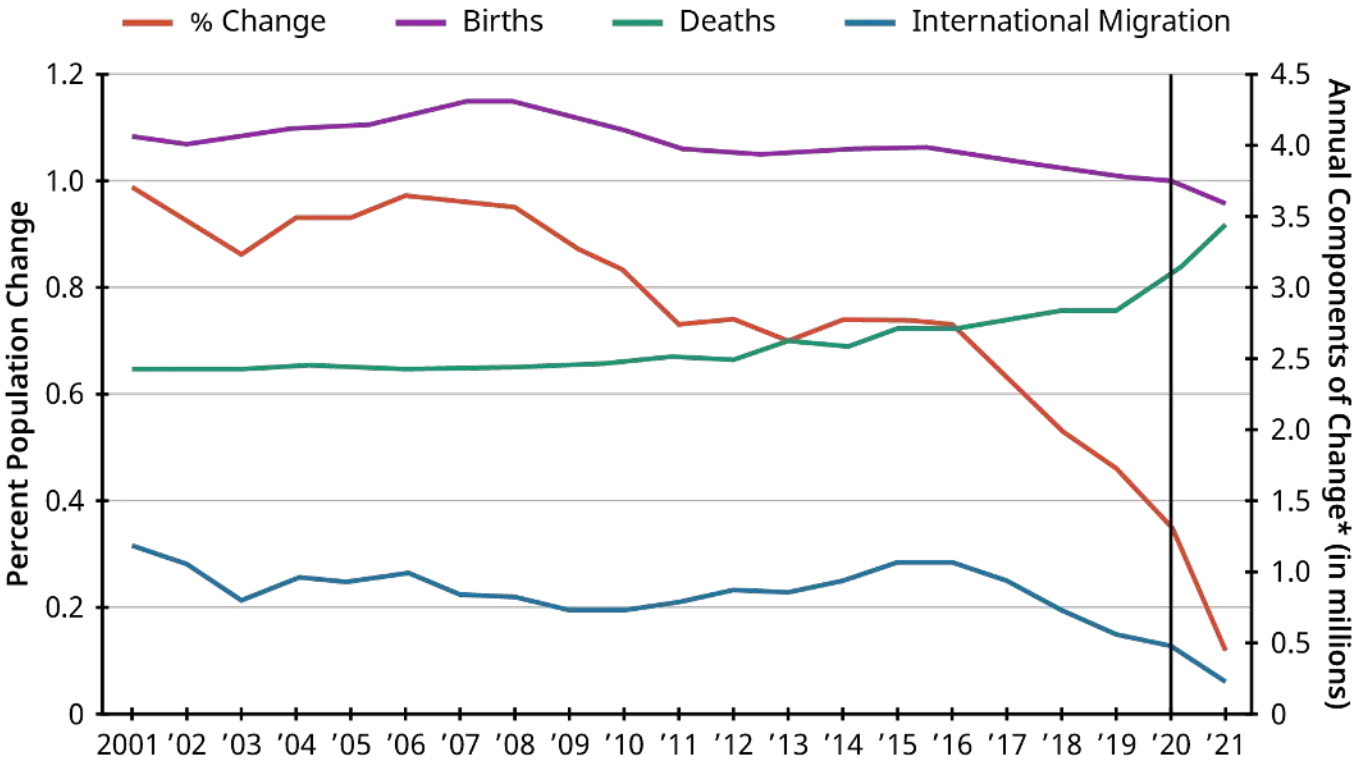


Figure 8.23 Population Change and the Components of Change: 2001–2021 (data source: United States Census Bureau/census.gov; attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Consumer Spending Dominated by Baby Boomers

While this is not a new trend, it is certainly one that will continue through the 2030s as the baby boomer population ages out. The American Association for Retired Persons (AARP) reports that American workers over 65 years of age have a median income of $78,000 per year, while workers under age 65 have a median income of only $55,000 (American Association of Retired Persons, 2019). Keep in mind that this statistic is about individuals who are actively working, meaning not yet retired. Couple it with the wealth accumulation information you read about earlier. The baby boomer population certainly exerts outsized economic and purchasing influence, making this an important current and future market segment.

Understanding sociodemographic trends such as population growth and decline as well as market consumption based on generational groups is crucial for marketers to create relevant and effective marketing campaigns in the growing age of marketplace diversity.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Sociodemographic marketing is a subcategory of diversity marketing, and it targets audiences based on _____.

a. psychological distinguishing factors
b. political affiliation
c. geographical and governmental boundaries
d. shared social and demographic variables

2.

Which of the following is a key marketing approach for reaching the LGBTQIA+ audience?

a. Focus on the societal experience around belonging.
b. Build empirical value differences in products and services.
c. Compare mainstream market adoption levels for new technology.
d. Use a personal argument as a persuasive purchasing strategy.

3.

Which of the following is a useful step to improve a marketer's ability to reach a generational target audience?

a. Use deeper and more extensive combinations of sociodemographic variables.
b. Add variables such as income, education, or social markers.
c. Use focus groups to provide direct input and deeper insights and ideas.
d. All of these are useful steps.

4.

When marketing specifically to consumers with disabilities, you can express inclusivity in advertising by using _____.

a. all individuals, even those who do not have a disability
b. impersonal and abstract images
c. individuals who have a disability
d. only nonvisual advertising media

5.

Which of the following is an emerging sociodemographic trend that will impact future marketing?

a. Rapid population growth in the United States
b. Consumer spending dominated by baby boomers
c. Redistribution of economic wealth
d. Hemispherical global migration caused by global warming

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8.7: Ethical Issues in Diversity Marketing

Learning Objectives

By the end of this section, you will be able to

- Identify the ethical issues related to diversity marketing.
- Discuss how to address different consumer values to reduce issues in marketing.

Ethical Considerations in Marketing

The issues related to business ethics reside within society's definitions and standards. As is the case for many topics, what is considered ethical business behavior or an accepted practice today can change tomorrow based on context. In other words, business ethics do not remain fixed. Ethical standards transform and adapt in conjunction with changes in the business environment.

Consider the following scenario. Let's say you are visiting the doctor for your annual checkup. How would you feel if the doctor walked into the exam room smoking a cigarette? Most people would react negatively. In most places in the United States, it is against city ordinances to smoke indoors in public places except for designated smoking areas. These ordinances are enforced because the government recognizes that smoking is a health hazard. If your doctor walked into the exam room with a cigarette, it would pose several ethical concerns. However, did you know that until the 1950s, doctors approved of smoking and even appeared in cigarette ads? By the mid-1960s, the medical field developed clarity around the hazards of smoking, and norms were changed in society and advertising. Figure 8.24 shows an advertisement making this point.

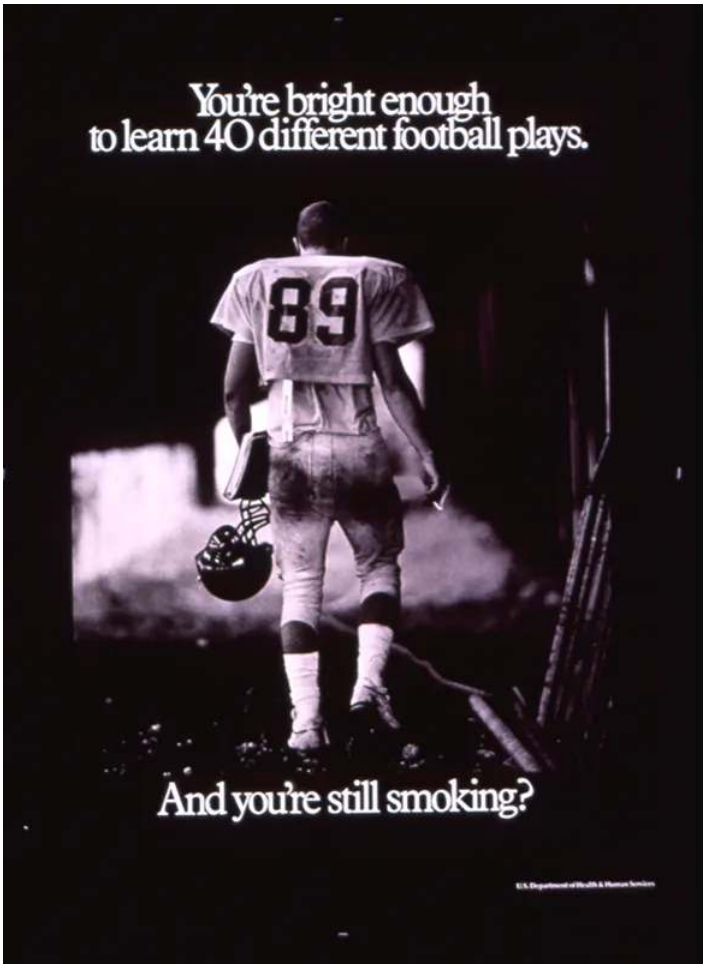


Figure 8.24 Evolving ethical standards impact marketing campaigns by requiring companies to transform their messages to meet new societal norms, as exemplified by modern anti-smoking advertisements. (credit: "You're Bright Enough to Learn 40 Different Football Plays" by NIH National Library of Medicine, CDC/nlm.nih.gov, Public Domain 1.0)

Where do business ethics come from? Ethics originate from the need and desire to promote both fair and equitable competition in the market. Ethics are supported by legislation such as the Sherman Antitrust Act from the U.S. Department of Justice. Ethical considerations in diversity marketing have a similar background. They are linked to companies' fair and equitable outreach and representation of diverse audiences in the market. These include multicultural and sociodemographic consumer segments in particular.

Business ethics shape companies' and employees' work behaviors, corporate activities, and marketing efforts. This implies that ethics are inseparable from a company's brand. Why? Because a brand is essentially what a business stands for and what it represents. Consumers associate certain characteristics and traits with a company's brand. These expectations, in turn, influence purchasing actions. For this reason, marketers need to take great care in creating an accurate reflection of the company's ethics that are also culturally and socially sound.

Ethics are often contextual, so it is important to recognize that values and behaviors vary by culture, identity, and other demographic variables. This means it is imperative to truly understand targeted segments as thoroughly as possible. It is common for marketers to research things such as buying patterns, consumption sentiment, desired features, and media efficacy. However, to succeed in a diverse marketplace, research must extend deeper. It must be ethically based on target segments' cultural sensitivities and social issues. Economic fairness, political viewpoints, differences in technological access, legal protections, and environmental risks should also be considered in ethical marketing research.

Ethical Issues in Diversity Marketing

One of marketing's primary functions is to reflect an organization's business ethics and values to the marketplace and consumers. This must be done actively and intentionally. Marketers are responsible for ensuring that efforts and communications are honest, balanced, and authentic to the company and the marketing profession. Creating awareness of cultural and social issues that impact ethical practices is also a key function of diversity marketing.

Cultural and Social Values

How messages are perceived and decoded in advertising is the most publicly visible representation of a company's ethics, values, and overall business culture. Marketers must ensure that advertising campaigns do not reinforce harmful stereotypes and unconscious biases. This is not easy to do because, after all, cultural and social beliefs are deeply seated. This explains why some biases are unconscious.

Stereotypes and unconscious biases are evident in every facet of life. In fact, everybody has them. Cultural stereotypes and social biases are common in advertising. Let's explore some situations. Asian people share many cultural values and characteristics. As you have read, the Asian population in the United States is comprised of 22 different countries of origin. Red is considered a lucky color by most Asian people. When advertising to Chinese consumers, it is typical to see the color red used prominently. However, assuming that all Asian consumers feel the same about this color is stereotyping. For Japanese people, green symbolizes youth and vital energy; yellow is associated with vitality and light for Korean people (Olesen, 2012; Shin et al., 2012).

You may have seen ads suggesting that only boys or men play football or that only girls and women cook. These types of ads perpetuate gender stereotypes. That's why campaigns such as Procter & Gamble's groundbreaking 2014 "Like a Girl" campaign challenged people's stereotypes with ads about what it means to do things as a female. Here is yet another example. Radio advertisers could ignore baby boomers in favor of millennials and Generation Z consumers. This bias is driven by the incorrect assumption that baby boomers are not active radio listeners, which is not true. Stereotypes and biases can cost companies a lot of money in negative publicity and lost opportunities. From an ethical perspective, biases can have unintended discriminatory results among diverse consumer segments.

Diversity Representation

Diversity marketing is about reaching a larger portion of the total market by including diverse population segments such as multicultural and sociodemographic audiences. Representation matters for a growing number of consumers. While trying to be inclusive, marketers need to steer clear of tokenism. Tokenism happens when an individual from either a minority group or an underrepresented community is included in ads or marketing communications to prevent criticism. Tokenism is a symbolic act that gives the appearance of representation. However, it is not a genuine desire to portray consumer diversity.

Regarding ethical considerations such as advertisements' diversity balance, the focus is on ensuring positive associations. This inclusive balance is not limited to just people. It also applies to terms, phrases, and other forms of communication. For instance, misusing words or incorrect translations can inadvertently convey a lack of sensitivity to multicultural or sociodemographic consumers. Marketers may offend without intending to do so. As an example, as you read earlier in the chapter, some terms can be disliked by ethnic consumers.

Marketers must intentionally consider every characteristic, factor, and set of values that shape diversity and inclusivity. These need to be weighed against the perceptions of each consumer segment. Doing thorough research, design, and review goes a long way toward ensuring a fair and equitable representation of all consumer segments.

Companies with a Conscience: Culturally Sensitive and Socially Inclusive Marketing

Multinational industry leaders such as Coca-Cola, Google, Adidas, Unilever, AT&T, Marriott International, and Microsoft are just a few of the companies that, like P&G, are focusing their marketing efforts on being more culturally sensitive and socially inclusive. Even niche players, partnerships, and private companies such as Bumble, Fenty Beauty, and ThirdLove are also championing diversity as a core value through equal cultural and sociodemographic representation rather than just chasing a trend in marketing (Nittle, 2018).

Consider Coca-Cola's long history of advertisements and promotions, for example. In the early 1970s, Coca Cola released the "Hilltop" commercial (also known as "I'd Like to Buy the World a Coke"), which showed people from different races and cultures bonding over the beverage. In 2011, the company launched the groundbreaking "Share a Coke" campaign in Australia to connect with consumers personally while influencing product purchases. The campaign went viral and became a global success (Coca-Cola, 2019).

For the 2014 Super Bowl and the Winter Olympics in Sochi, Russia, Coca-Cola launched the "America Is Beautiful" campaign (Day, 2014). Recognizing the growth of multicultural consumers in the United States, the campaign's commercial featured seven young bilingual American women singing in different languages. It also showed culturally diverse consumers from all walks of life. Although the campaign was subject to severe criticism and sparked outrage and boycotts by some people, others applauded Coca-Cola for its commitment to more inclusive marketing communication. That is what diversity marketing is all about.

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8.8: The Global Market and Advantages of International Trade

Learning Objectives

By the end of this section, you will be able to

- Define global market opportunities.
- Explain why international trade is advantageous to business.
- Discuss the challenges of international trade.

Global Market Opportunities Defined

For some, the thought of expanding business operations into the global market is new, exciting, and fun. For others, it may seem daunting or impossible. At some point, most if not all companies will decide if and how they will expand into global markets based on global market opportunities. Global market opportunities simply refer to favorable conditions for a company to expand outside its home country market. These conditions include internal factors, such as the company's ability and knowledge, and external factors, such as market growth, customer demand, and regulations or trade barriers within the industry.

Many companies have a presence in the global marketplace at some level. Consider a small Etsy shop that sells custom-printed T-shirts. While the T-shirts may be printed in the United States (maybe even in someone's garage), the T-shirts may be purchased in foreign markets, such as China. While Etsy is a small-scale example, larger companies may have a greater presence in the global marketplace. Consider that Nike, founded in 1964, now sells its products in 170 countries that serve more than 30 major sports and consumer lifestyles (Nike, Inc., n.d.). While there are considerable risks to entering global markets, there are also numerous advantages.

Advantages to International Trade

There are several advantages to international trade, including increased revenues, decreased competition, faster growth, diversification of risk, and the ability to more easily find buyers of excess inventory. Let's look at each of these in more detail.

Increased Revenues

One of the most obvious advantages of international trade is increased revenue. Recall that revenue is the money earned from business operations, so the more countries in which a product or service is available, the more revenue will be generated.

Decreased Competition

A US-based company may have a great deal of competition. Consider the automobile industry. In the United States, most households own at least one vehicle. Competition in this industry is fierce, and it would be difficult for a new company to enter the market. However, in developing countries where automobiles are not as prevalent or infrastructure is still in development, competition for automobile buyers could be much lower.

Alternatively, fiercer automobile competition in some countries may force competitors to leave the market or choose not to enter. China is the world's largest vehicle market in sales and manufacturing output (International Trade Administration, 2022). As such, carmakers worldwide continue to vie for the Chinese automobile market share. However, the market is mainly dominated by China's domestic automakers, making international competition difficult (Daxue Consulting, 2020).

For example, the Hongguang Mini EV, a battery electric microcar manufactured by China-based SAIC-GM-Wuling, has been a top EV seller since 2020 (Wikipedia, 2024). In an effort to take market share, Ford has set the "groundwork to accelerate a refresh of the company's product portfolio in China by launching three new vehicles offered only in China" (Ford Motor Company, 2022).

Faster Growth

For companies with a growth strategy, international expansion may be a viable option to achieve these goals. This is particularly true when the home country's market is saturated or experiencing slow or no growth. A market becomes saturated when there is enough capacity in the industry to meet all consumer demand or when consumer demand begins to decrease. Either instance may make the international market an attractive opportunity for a business.

In addition to the growth of the company, as firms decide to expand into global markets, the international market will also experience growth. For example, when Amazon expanded its global operations to include a fulfillment center in Poland, the company hired employees to fulfill those orders. As of 2022, the Poland fulfillment center employed 25,000 people (Public Relations Team, 2022). These individuals use their paychecks to purchase goods and services within their economy, causing the economy to grow. As new companies enter these markets, individuals are given the opportunity to consume a wider selection of goods and services and to move into higher standards of living.

Diversification of Risk

Risk refers to any situation or condition that leads a company to decreased profits or even failure (Kenton, 2022). Have you ever heard the saying “Don’t put all your eggs in one basket”? It refers to putting all of your effort into one area and risking great loss. It’s a reminder of how international expansion can help diversify business risk. Rather than focusing on one product or one market, companies can spread their risk across various markets. Additionally, while one country may be experiencing a recession and causing sales for a company to decline, another country may be experiencing a boom, which would likely result in an increase in sales for that same company. With operations in multiple countries, a company can potentially balance the up-and-down markets. A downturn in one or a few markets will not cause the company to fail because the demand in other markets may be growing.

Disposal of Surplus Goods

A final major advantage to international trade is the ability to dispose of surplus goods. For example, before each Super Bowl, the NFL makes clothing for both teams that states each is the winner so that supply is available immediately after the game. However, only the winning team’s clothing is sold after the game. Rather than the losing team’s clothing going to landfills, it is donated to other countries, decreasing the waste of the unsold product (Mendoza, 2022). Do not confuse the disposal of surplus goods with the concept of *dumping*, an illegal practice that will be discussed later in the chapter.

Challenges to International Trade

While there are numerous advantages to international trade, there are also challenges. Those challenges are discussed in more detail in the following sections.

Understanding the Business Environment

Regardless of a business's location, its success depends largely on management’s understanding of the business landscape. The business landscape refers to all internal and external factors of the business, its industry, and its environment. Companies that intend to expand internationally often make the grave mistake of assuming the landscape of a new market is the same as that in the home country, a concept known as ethnocentrism. In most instances, this causes companies to stumble or even fail. Understanding the nuances, expectations, and regulations in international markets is one element that drives success.

Understanding the Target Country’s Business Politics

Politics, laws, and industry relationships shape the environment of businesses both locally and abroad. The way business is conducted varies greatly from country to country, and businesspeople must not only be aware of these differences but must also have the ability to adapt to the local business politics.

Differences in Regulations and Marketing

Remember, there is no one-size-fits-all marketing campaign. You can imagine how this notion is amplified considering marketing in various countries. Marketers must be in tune with their target markets to succeed. Additionally, marketing is perceived differently in various cultures, and it is important to understand how cultural differences influence consumer behavior.

For example, in the United States, it is not uncommon to see a plethora of advertisements for prescription medications targeting the general public. Most other countries do not regularly advertise prescriptions to the public but rather to the doctors prescribing those medications. In fact, the United States and New Zealand are the only countries where this type of marketing is allowed (Harvard Medical School, 2017). Each international market requires marketers to adapt or create new marketing strategies, which can vary considerably with each of the marketing mix elements—product, price, place, and promotion.

Cultural Differences

Local culture has an impact on marketing campaigns. It's common for marketers and other businesspeople to find it challenging to understand the differences between their own culture and the target market. Cultural sensitivity can help to alleviate these challenges when preparing marketing campaigns for other countries and cultures. Cultural sensitivity is the awareness and appreciation of and the ability to adapt to a cultural, ethnic, racial, or other group other than one's own (APA Dictionary of Psychology, 2018). By increasing cultural sensitivity, marketers can better create marketing campaigns that truly encompass the target market.

Two examples of companies not readily prepared come from Nivea and Gucci. In 2017, Nivea launched a social media campaign stating "White Is Purity." The public perceived the phrase as racially insensitive. To make matters worse, the slogan was then used by white supremacists in their propaganda (Thunderfoot Team, 2017). While the company apologized and removed the campaign, these marketers should never have let the campaign leave the idea room. In 2019, luxury fashion designer Gucci introduced a balaclava knit jumper with material that went up and around the mouth. The advertisement for this clothing featured a White woman modeling the sweater with bright red lipstick. Many critics noted its similarity to blackface. The company immediately pulled the $890 sweater from stores (Ollerton, 2021).

Link to Learning: Gucci

Read more about the balaclava polo jumper from Italian designer Gucci, the public commentary, and Gucci's official response. Also check out the details behind the Nivea "White Is Purity" ad and the uproar from consumers.

Cultural differences are an important factor in product marketing, but these differences are also critical with business practices. Suppose you are meeting with a business partner in another country. Do you know if there is a gift-giving expectation? You may be aware that there are ethical concerns and sometimes prohibitions with gift giving in the United States, but in other countries, it would be unprofessional to attend a meeting without a gift. For example, in Japan, it is customary to bring a small gift with an initial sales call (Aperian, 2020). In the United States, some companies won't allow employees to accept gifts.

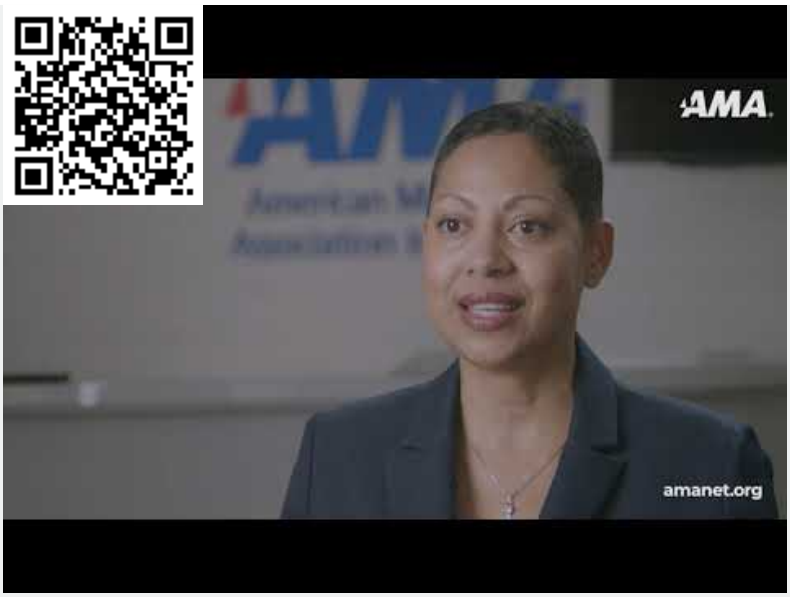
Using another U.S. example, it is not unusual to "get right down to business" when meeting with others. Conversely, it may take several meetings to develop rapport with Japanese businesspeople before business is ever discussed. In addition, it's commonplace in Japan for people to not shake hands (see Figure 8.2) but bow to one another (The City of Yokohama Europe Representative Office, 2024).



Figure 8.2 Understanding cultural differences is important in marketing products and in business practice; for example, shaking hands is not globally accepted. (credit: "CC-BY-Mapbox-Uncharted-ERG_Mapbox-b053" by Mapbox Uncharted ERG/flickr, CC BY 3.0)

Link to Learning: Cultural Sensitivity

There are many ways you can begin to be more culturally sensitive. The first step is awareness. Read this short article and find ways to improve your cultural awareness and multicultural relationships. Also check out this video to learn how to develop cultural competency as a skill.



Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

When conditions are favorable for a company to expand globally, the company is experiencing _____.

a. global market opportunities
b. international trade
c. growth
d. increased sales

2.

Which of the following is NOT an advantage of international trade?

a. Increased sales
b. Growth
c. Cultural barriers
d. Diversification of risk

3.

Being aware of and appreciating variations in culture is known as _____.

a. cultural sensitivity
b. cultural barriers
c. cultural differences
d. marketing regulations

4.

Ashia is planning a business dinner with her new clients in Chile. She has never visited Chile before and is not familiar with their customs. Which of the following would you NOT advise Ashia to do?

a. Tell Ashia she should consider talking with a colleague who has traveled to Chile before.
b. Tell Ashia to study some of the most important Chilean customs to avoid embarrassing herself or offending her dinner guest.
c. Tell Ashia that if she is in doubt, she should follow her dinner guests' lead on what is appropriate.

d. Tell Ashia not to worry about it because the Chilean businesspeople should adapt to her customs because her customs are the best ones to follow.

5.

Which of the following is true regarding business politics?

a. They do not vary from culture to culture.
b. Business politics can vary greatly across cultures, and businesspeople should decide what is within their own ethical compass before deciding to conduct international business.
c. Business ethics are the same across every culture.
d. When conducting business in a foreign market, you should always do what is asked of you, even if it's unethical or illegal in your home country.

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8.9: Marketing in a Global Environment

Learning Objectives

By the end of this section, you will be able to

- Describe how marketing strategies are adapted for a global marketplace.
- Summarize how global strategies affect the 4Ps of marketing.

Adapting Marketing Strategies for the Global Marketplace

Until now, we've mostly been learning about the bigger-picture decisions a company must make when deciding whether to enter the global marketplace. Once these company-wide decisions are made, marketing managers must determine the most effective way to market their products in the new markets. They must determine if completely new products or existing products will be offered in the new market. Additionally, they must determine if the other marketing mix variables must be adapted to the local market.

Standardized Global Marketing

A standardized global marketing strategy is one in which a company uses the same marketing strategy in all markets. Coca-Cola primarily uses a standardized marketing strategy in all markets. The brand, brand name, and iconic cursive writing in white on a red background can be seen all over the world. The advantage that Coca-Cola has in this strategy is that the company can spread the cost of marketing over all the regions in which it operates (Tirosh, 2024).

Adapted Global Marketing

Conversely, a company may not find success in a one-size-fits-all marketing strategy. In this case, the company may choose an adapted global marketing strategy in which marketing strategies differ among global markets. If a company chooses an adapted global marketing strategy, there would be high marketing costs associated with each of the markets in which the company conducts business. Netflix, for example, offers different content (movies and shows) in each of its markets based on the customer demands in each country (Tirosh, 2024).

The 4Ps of Marketing in a Global Environment

Now that the company has chosen either a standardized or adapted marketing strategy for its global operations, it's time to consider each of the 4Ps of global marketing—product, price, place, and promotion.

Product

Companies entering new foreign markets have three choices surrounding the product. They include straight product extension, product adaptation, and product invention. Each has its own advantages and disadvantages and levels of risk. Let's take a look:

- A straight product extension is a strategy that entails maintaining the same product for both home and foreign markets. As you can imagine, this is the easiest product strategy and has the same advantages as a standardized marketing strategy. Some products are globally known and need no modifications to sell them.
- Product adaptation is when companies modify products to align with the local culture. For example, Nike manufactures different styles of shoes based on the local culture's preferences, such as the Nike Air Zoom, a high-intensity interval training (HIIT) shoe released in Australia (Nike, 2024a). This shoe is not available in the United States and looks quite different from other performance shoes offered in the United States (Nike, 2024b).
- The most involved product strategy used in global marketing is product invention. Product invention consists of creating entirely new products for a global market. Consider the earlier example of the Ugandan market. Because less than half of the population has access to electricity, there is a potential for companies to invent new products, such as cooling systems, that do not require electricity (World Bank, 2024).

Link to Learning: 7-Eleven and Product Adaptation

There are numerous examples of product adaptation across markets. Check out this video on how 7-Eleven differs between American and Japanese markets.



Price

When pricing a product in a foreign market, there are other factors to evaluate besides home country considerations. Tariffs, the local economy, shipping, and other factors need to be considered because these will all impact earnings and profit.

Do you know which country is the most expensive to purchase a car in? You might be surprised to hear it is Singapore. The small island country doesn't have a lot of room to accommodate everyone having an automobile, so the government has imposed high import taxes and yearly fees to keep the number of automobiles down (ezAUTO.MY, 2022).

Place: Distribution Channels

Marketers considering distribution channels in foreign markets may find themselves with limited options compared with their home country. In the United States, for example, most companies have many choices of wholesalers, retailers, and supply chains. However, those options can be limited in more remote areas of the world and developing countries. Consider again our Uganda example. Most retailers, particularly outside the capital city of Kampala, are "mom-and-pop" stores. Additionally, there are few transportation routes, and the ones that do exist consist mostly of dirt roads and a few highways. Unlike the United States, it is rare to see tractor-trailers (semis) carrying containers of goods from one location to another. Instead, taxis, motorbikes, and foot traffic are the main modes for product transportation.

Marketers must consider the whole channel when making distribution decisions. The whole channel refers to the design of the international channels that incorporates all members, including the manufacturing, retailer, and wholesaler sites, as well as transportation (Definition, 2024).

Have you seen the movie *Captain Phillips*, starring Tom Hanks? The movie was loosely based on the true story of the Maersk Alabama container ship that was hijacked by Somali pirates off the coast of Somalia. Yes, pirates exist, and when they are able to capture large cargo ships, they can loot a lot of valuable cargo (Beckcom, 2017). While many large vessels avoid pirate territory when considering the whole channel, pirates still exist today and often wait at sea to steal millions of dollars' worth of goods.

Promotion

Just as marketing managers must determine whether to adapt their product to new markets, they must also determine the best course of action for the promotion strategy. Nearly all promotion strategies must adapt to some degree in different markets, even if it is a simple product expansion.

Consider Coca-Cola, whose brand name remains unchanged. However, in some countries, the slogan is slightly tweaked to have a more local meaning but with the same underlying promotional message. Refer to Table 8.2 for some of the Coca-Cola slogans used around the world.

Coca-Cola Slogans Around the World

Country	Slogan
India	Always the Real Thing
United States	Real Magic
New Zealand	Real Magic
Spain	Siente El Sabor (Feel the Flavor)
Hungary	Kóstold meg az érzést (Taste the Flavor)
Indonesia	Rasakan Keajaiban (Real Magic or Feel the Magic)

Table 8.2 Coca-Cola Slogans

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

A company that uses the same marketing strategy in all markets is most likely utilizing which of the following?

a. Standardized
b. Adapted
c. Invention
d. Modified

2.

Which of the following is correct regarding the promotion strategy of global markets?

a. All promotion strategies should remain the same across markets.
b. Promotion strategies of global markets should deviate only slightly from the home market.
c. Promotion strategies should reflect the market, some to different degrees.
d. Promotion strategies of global markets should always be completely different from those of the home market.

3.

Which of the following Coca-Cola slogans is used in New Zealand?

a. "Real Magic"
b. "Always the Real Thing"
c. "Feel the Flavor"
d. "Feel the Magic"

4.

Which of the following is part of the whole channel?

a. Promotions
b. Communications
c. Price
d. Distribution channel members

5.

Which country has the highest automobile prices?

a. China
b. Singapore
c. United States
d. Canada

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8.10: Ethical Issues in the Global Marketplace

Learning Objectives

By the end of this section, you will be able to

- Identify ethical issues facing global organizations.
- Provide an example of a company that displays ethics in the global marketplace.

Identifying Ethical Issues in the Marketplace

As with all business decisions, there are ethical matters to consider when entering the global marketplace.

Outsourcing

Outsourcing refers to a business moving some of its operations to a foreign country to save money and time or to increase volume and quality. WhatsApp, an encrypted communication app owned by Meta Platforms (formerly Facebook), has been used globally for several years. Based out of California, the company realized it would have difficulty growing if it did not outsource. In 2012, the company began utilizing Russian companies for a small fraction of what it would have had to pay within the United States (NIX United, 2020). While outsourcing has its advantages, many will argue that outsourcing eliminates jobs in the home country.

Work Standards and Conditions

Unlike most developed countries, those countries that are still developing often have much lower standards for working conditions. This has been a topic of hot debate for many years in the United States and around the world as companies have moved some or all of their operations to countries with lower standards. In Xinjiang, China, more than half a million people from ethnic minority groups are forced to pick cotton for the fashion industry (Davidson, 2020). Well-known companies such as Nike, Apple, and Levi's have come under the same scrutiny in more recent years. Although cheaper production costs provide the company with more profits, more often than not, lower standards, working conditions, and otherwise unethical behavior put them under a microscope. Alternately, many companies and experts argue that even the worst working conditions have a positive impact on developing nations (Blattman & Dercon, 2017).

Workplace Diversity and Equal Opportunity

In recent decades, many countries have passed regulations to include and promote diversity in the workplace (Collins, 2020). However, in other countries, diversity and equal opportunity remain human rights issues. A diverse workforce has numerous benefits, particularly for companies expanding globally. Companies committed to diversity have increased chances of success in the global market; diversity often breeds an increase in ideas and cultural intelligence and creates a more agile workforce (Yazdi, 2017).

Additionally, marketers must also be considerate of diversity in their marketing strategies. Alienating underrepresented groups of people within a target market might not only cost sales but also backfire in terms of representation. Procter & Gamble has utilized its many marketing platforms to not only include diversity but also to shed light on societal struggles of people of many racial identities in its target markets. The company has also extended diversity into its hiring practices to "mirror the U.S. population" (Oakenfull, 2021)

Child Labor

Most Americans see the use of child labor as unethical. The United Nations (UN) has implemented many treaties that establish human rights for children within member nations (GoodWeave, 2024). However, each country has its own standards for child labor and the minimum age at which a child can work.

Bribery and Corruption

Bribery and corruption may seem like a thing from the past, but in fact, both are still quite prevalent in both developed and developing nations. Nearly all countries have laws against bribery and corruption, but in many politically unstable areas, doing business means bribing officials. When a company expands into international markets, the managers and marketers must decide to what degree they are willing to participate in practices otherwise deemed illegal or unethical in the home country. The Foreign

Corrupt Practices Act of 1977 “was enacted for the purpose of making it unlawful for certain classes of persons and entities to make payments to foreign government officials to assist in obtaining or retaining business” (Fraud Section, 2023).

Dumping is a practice in which a company manufactures a very large of number of goods and exports them to a foreign market, and the product is offered at an extremely low price to the consumer market. This often drives out all competition in the market. Once competition is driven out, the company then raises the price of the product, essentially creating a monopoly on the product. The United States and other countries have laws strictly prohibiting the practice of dumping, and many impose fines against those companies attempting to practice dumping.

Link to Learning: Free and Fair Trade

As a marketer, it’s important to be aware of ethical practices. Learn more about the United States Department of Commerce and how it promotes free and fair trade.

Companies with a Conscience: Kao Corporation



Figure 8.7 Global companies are also interested in ethical business practices; for example, Kao, a Tokyo-based company, and Costco, a US-based company, partnered to develop foldable containers for repeated product use. (credit: “Costco-Ribboncutting-21” by Baltimore County Government/flickr, Public Domain)

Founded in 1887 in Tokyo, Japan, Kao is a “16-time Ethisphere World’s Most Ethical Companies honoree and [it has] been honored every year since Ethisphere started recognizing companies” (Ethisphere, 2023) The company’s strategies aim for zero waste when producing its cleaning and health and beauty products. Using leftover materials, Kao developed Bio IOS, a sustainable ingredient in its cleaning products. Its product development process encourages consumers to use refill packs to reduce waste (Gemeš, 2024).

In 2022, Kao and Costco teamed up to begin testing foldable containers that allow for repeated use as packing materials in a Kanagawa Prefecture Costco warehouse (see Figure 8.7) (Koa, 2022). To read more about this initiative and to see the packaging, visit the Kao website.

The company plans to expand these reusable packing materials into other warehouses and hopefully further into the industry. Kao prides itself on the innovation of societal and environmentally friendly products as well as practicing gender equality and universal product design (Gemeš, 2024).

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8.11: Chapter Summary - Diverse and Global Marketplace

Diverse Marketplace Summary

Marketing reflects an organization's ethics and values as it communicates, especially with current and prospective customers. Marketers have learned to adjust over time to changes in the marketplace, especially as technology, the environment, politics, culture, and demographics have evolved and altered customer needs, wants, and demands. This chapter introduces concepts primarily concerned with culture and diversity and the need for businesses to focus more on customer individuality than on customer commonality. Research shows that companies that build emotional ties through diversity generate more revenue, increase stock price performance, and enhance brand perceptions.

As outlined in this chapter, transportation, technological developments, business landscape, cultural considerations go hand in hand with globalization. Marketers must develop competitive marketing strategies in a realm far different than they're accustomed to. Decisions have expanded to encompass complex international considerations. Once a company has decided to enter an international marketplace, it must decide how best to make that entry. Some companies decide to export products, some determine a joint venture is the best approach, and others elect to invest in building manufacturing facilities. Each offers differing levels of investment, control, and potential profit. Another vital concern is whether the company will standardize its product offerings or shift products to adapt to cultural differences. In any event, successful businesses select their marketing partners and intermediaries carefully as they aim to add the value global customers want.

Marketers must be constantly aware of demographic trends, especially in multicultural identities, generational differences, consumers with disabilities, and changes in spending. Ethics, too, transform and adapt to the business environment. Ethical norms not only promote fair and equitable competition; they also set standards for brand stewardship and social responsibility.

Finally, the focus of many successful marketers today is to rely on marketing intelligence to guide them toward establishing and maintaining positive customer associations across population characteristics.

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8.12: Key Terms

acculturation | the process by which a person's family cultural patterns change because of direct and constant contact with a different culture

adaptation | the process of adjusting a company's work efforts, goods, or services in response to specific needs, tastes, or expectations—whether real or perceived—from different groups of consumers

adapted global marketing strategy | a strategy in which a company utilizes different marketing strategies in different global markets

Asian population | the third largest multicultural group in the United States; made up of 22 different subethnicities from the Asian continent, Hawaii, and islands of the Pacific; can belong to a single race or mixed races

Black population | second largest multicultural group in the United States; made up of three different subethnicities: single race, Black Hispanic, or Black mixed with another race (White or Native American)

business landscape | everything internal and external to the business, its industry, and its environment

company centric | a company's approach to focusing decisions and execution from the perspective of the organization rather than the customers

consumer income | the amount of money a household or individual earns

consumers with disabilities | sociodemographic group living with some type of disability related to mobility, learning, intellectual, or other types of functions; a very diverse group because disabilities span cultural, social, and demographic factors

cultural duality | characteristic of a multicultural individual for whom cultures overlap with each other and the person feels a sense of belonging to both at the same time

cultural identity | how a person identifies with a given culture, ethnicity, or social group, which instills a sense of belonging that influences personal thinking and actions

cultural sensitivity | awareness and appreciation of and the ability to adapt to a cultural, ethnic, racial, or another group other than one's own

cultural symbols | physical representations of a culture's language, values, and traditions

cultural values | unspoken aesthetics, socialization, and religious aspects woven throughout a culture

culture | objective and subjective elements like social norms, beliefs, behaviors, accomplishments, customs, arts, language, foods, and skills that characterize a particular group of individuals' way of life

customer-centric | a company's focus on putting targeted customers first regarding any decisions about its goods, services, or experiences to create satisfaction and strengthen loyalty

customs | mannerisms or behaviors that are considered characteristics within a social system

discretionary income | the money individuals and households are left with after paying taxes and other living expenses, such as food and shelter

disposable income | the money individuals and households are left with after paying taxes

diversity marketing | a strategic approach that involves identifying different subsegments of the population—*based on shared cultural and sociodemographic characteristics*—and creating intentional marketing efforts to connect with these consumer groups

diversity marketing intelligence (DMiQ) | the capability of identifying, accepting, and valuing the diverseness of consumers within a market and using this knowledge to tailor the marketing mix accordingly

dumping | the practice in which a company manufactures a very large number of goods and exports them to a foreign market to see cheaply

economic infrastructure | the physical facilities of an economy that benefit product and distribution

embargoes | trading bans on a product with a specific country; imposed between countries that have different political ideologies

ethnocentrism | an assumption that the business landscape or culture of an international market is the same as the home country or personal culture

exchange rate | the rate at which one country's currency can be exchanged for that of another country

exporting | when a firm makes a product or service in one country and sells it in others

foreign direct investment (FDI) | the process of establishing operations within a foreign country

franchising | a business strategy in which the owner (the franchisor) allows another person or entity (the franchisee) to operate a business using the franchisor's products, branding, and knowledge in exchange for a fee

generational population | sociodemographic category based on birth year clusters that includes Lost Generation (1883–1900), Greatest Generation (1901–1927), Traditionalist/Silent Generation (1928–1945), baby boomers (1946–1964), Generation X (1965–1980), millennials/Generation Y (1981–1996), Zoomers/Generation Z (1997–2009), and Generation Alpha (2010–2024)

global market opportunities | conditions that are favorable for a company to expand into the global marketplace

Hispanic population | the largest multicultural group in the United States, made up of diverse subethnicities and races originating from 20 different Spanish-speaking countries in North America, Central America, the Caribbean, South America, and Europe

international firm | a company that operates on a global level regardless of the intensity of involvement

joint venture | a business arrangement whereby two or more companies create a single enterprise or project

LGBTQIA+ population | community composed of individuals who express a diversity of genders, preferences, and sexual orientations that include lesbian, gay, bisexual, transsexual, queer/questioning, intersex, asexual, and other sexual identities

licensing | a contract in which one organization permits another to use its name brand or trademark on its own items

lifestyle | the way a person or group lives

marginalized consumers | populations of consumers that have been pushed to the margins of society and are often excluded from mainstream advertising

marketing mix | the four key elements—product, price, place, and promotion—that shape the development and execution of marketing objectives to reach a target market

multicultural identity | having an affinity with multiple racial or ethnic groups that a person has been exposed to and self-categorizing as being part of more than one of them

multicultural marketing | a subcategory of diversity marketing aimed at intentionally targeting audiences based on different racial, ethnic, and cultural identities and backgrounds

Native American | multicultural group of individuals of a single race and mixed races who are native to the United States and its territories, including American Indians, Alaska Natives, Native Hawaiians, and American Samoans

outsourcing | the process of moving some of a business's operations to a foreign country to save money and time or to increase volume and quality

product adaptation | when companies modify products to align with the local culture

product invention | when companies create entirely new products for a global market

purchasing power | the goods that can be purchased with one unit of currency

quotas | maximum allowable units (usually in currency) to be imported into or exported out of a specific country

risk | any situation or condition that leads a company to decreased profits or even failure

sociocultural factors | values, behaviors, culture, lifestyle, and language that shape a person's or group's way of living

sociodemographic marketing | a subcategory of diversity marketing aimed at intentionally targeting audiences based on shared social and demographic characteristics such as gender and sexual orientation, age or generation, family structure, religion, education, income level, and disability

sociodemographics | the combination of social and demographic factors that characterize specific consumer groups in the market

socioeconomically disadvantaged population | disadvantaged community that lacks social resources and infrastructure to reduce poverty; members tend to be in low-income households, experience financial insecurity, and have less access to education

standardization | the process of purposefully applying identical or consistent guidelines to goods or services to achieve uniformity

standardized global marketing strategy | a strategy in which a company uses the same marketing strategy in all markets

stereotypes | oversimplified images, perceptions, or ideas of a person or group

straight product extension | a strategy that entails maintaining the same product for both the home and foreign markets

strategic alliance | when two companies from different countries agree to invest resources in a mutually beneficial way

tariffs | taxes that governments impose on imports into the country

tokenism | the practice of including an individual from either a minority group or an underrepresented community in marketing efforts simply as a symbol

trade blocs | intergovernmental agreements that remove barriers to trade within regions of the world

transnational firm | a company that allows for a higher degree of localization

whole channel | the design of the international channels that incorporates all members, including the manufacturing, retailer, and wholesaler sites, as well as transportation

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8.13: Applied Marketing Knowledge- Discussion Questions

1. The Special Olympics offers businesses the opportunity to sponsor local, regional, national, and international events. Using what you have learned from this chapter, list three reasons companies such as Procter & Gamble, Toyota, Coca-Cola, United Airlines, Microsoft, and the NFL would choose to spend millions of marketing dollars to partner with Special Olympics.
2. According to the U.S. Census Bureau, the United States is moving swiftly to a “plurality nation” status. Identify two major multicultural trends that have and will continue to impact market segmentation.
3. Student Services on your campus likely has a diversity and inclusion staff that encourages an expansive range of cultural perspectives, experiences, voices, and methods for taking action on campus. How does your college or university market diversity and inclusion services to prospective students through its website?
4. Market fragmentation is the concept that all markets are increasingly diverse and comprise smaller segments of consumers that respond differently to marketing messages. Media, too, has splintered, and in addition to having access to information provided by newspapers, magazines, TV, and radio, consumers now have access to millions of informational sources. However, the severe fragmentation of consumers and ways to communicate with them poses many challenges to marketing efficiency and branding. Why?
5. DMiQ reveals that baby boomers offer the best marketing opportunities for firms. Which sociodemographic group offers the next best marketing opportunity by sheer size of the segment?
6. Why do most global organizations envision the world as a huge market without borders?
7. Describe the differences between exporting, forming joint ventures, and licensing products.
8. What factors do companies consider when determining a foreign country’s market attractiveness?
9. Adding value to the delivery network is tricky and complex for international sellers. With whom do these sellers usually partner to move products seamlessly through distribution channels?

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8.14: Critical Thinking Exercises

1. Like Nike's marketing adaptation with "Nike by You," other retailers offer customers individualized products. For instance, you can design your own jeans online. Brainstorm five other products that may lend themselves to customized offerings that express cultural or sociodemographic differences.
2. Diversity marketing intelligence (DMiQ) refers to the capability of identifying, accepting, and valuing the diversity of consumers within a market and using this knowledge to tailor the marketing mix accordingly. Thus, capturing insights about consumers' heritage, experience, lifestyle, beliefs, or living situations helps explain the nuances and idiosyncrasies associated with diversity. These insights helped identify that the LGBTQIA+ community generally spends more money online and at retail stores. Additionally, the research firm Out Now estimates the LGBTQIA+ community spends more than $211 billion on travel. How can the travel industry employ DMiQ to derive more value from this group that enjoys travel and is willing to pay for it?
3. Research has shown that members of the baby boomer generation possess the most wealth in the United States and are responsible for 70% of annual spending on prescriptions and medical supplies. Are there any ethical considerations in developing marketing messages to this large and older segment of society that doesn't want to be pigeonholed as "elderly"?

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8.15: Building Your Personal Brand

Students who are building their résumés have always been encouraged to set themselves apart from the competition for internships, jobs, and volunteer experiences. In other words, focus on what makes you stand out from other job seekers. If you are bilingual, why not prepare your résumé, blog, or LinkedIn profile in both languages? Are you especially knowledgeable in a particular area such as designing alternate reality games? Do you collect comic books or baseball trading cards? All of these interests, collections, and abilities not only have the potential to create a dialogue with potential employers, but they also highlight your heritage, lifestyle, or singularity to your advantage.

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8.16: What Do Marketers Do?

Relatively few recent marketing graduates think about entering the nonprofit arena. Some of the key positions in nonprofits include marketing director, event coordinator, director of development, communications specialist, and volunteer coordinator.

There are many nonprofit organizations operating in the United States that strive to serve multicultural groups and sociodemographic communities. Some have purposeful objectives like equitable rights and inclusivity. Some national examples include Advancement Project, American Civil Liberties Union (ACLU), Asian Americans Advancing Justice (AAJC), Equal Justice Initiative (EJI), Human Rights Campaign Foundation, League of United Latin American Citizens (LULAC), National Association for the Advancement of Colored People (NAACP), National Immigration Law Center, National Organization on Disability, National Urban League, Prospanica, The Asian American Foundation (TAAF), The PhD Project, and The Trevor Project.

Contact a local nonprofit organization and interview an employee filling one of the above-mentioned roles. Questions may include:

- What drew you to this organization?
- What is its mission?
- What groups or communities does it serve?
- Does the position require specific training?
- How many volunteers do you have, and what are their responsibilities and time commitments?

Finally, consider whether volunteering for this organization may fulfill you, add to your résumé, and/or bring you in contact with future employees, colleagues, and friends.

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8.17: Closing Company Case

Lineout

If 50 is the new 30, most 50-year-olds want to look 30. Consumers in their twenties want to look like their favorite Hollywood star or Instagram influencer. New methods, procedures, and products are flooding the market to appeal to the market demand for better skin, reduced facial wrinkles, and improved appearance. A big part of the market for skin care products is dermal fillers. According to Fortune Business Insights, the global dermal fillers market is projected to grow from $3.07 billion in 2021 to $6.28 billion in 2028 at a compound annual growth rate (CAGR) of 10.8% in the forecast period, 2021–2028 (Fortune Business Insights, 2021).

Noninvasive and minimally invasive procedures for smoother and younger-looking skin are rising in popularity among many different demographic groups. Through facial fillers or digitally enhanced photographs, many people are looking to improve their look. While most consumers may not have the money or the willingness to undergo surgical cosmetic procedures, many are very willing to take an alternate route—receive an injection that may last 3, 6, or 12 months and provide the appearance of younger-looking, smoother, line-free skin (McKinsey & Company, 2021).

Looking to break into the market of dermal fillers and provide excellence in the injection experience and outcome, Lineout jumped into the market. The company didn't want to be a typical medical spa with a wide breadth of services. Instead, it was looking to be a boutique provider of an in-demand service done with excellence and provided through a vast network of boutique locations nationwide.

Like the nail salon that only does nails, Lineout is a boutique that focuses only on facial fillers. The boutique experience with niche specialization was lacking in the industry. To provide facial injections with precision and only do the best for its clients, Lineout had a business model that could break into the market and be replicated throughout the country.

While most medical spas market primarily to middle-aged women, Lineout realized the market was much bigger and more diverse than most medical spas recognized. Consumers of various ages, genders, and ethnicities were seeking facial fillers. Many medical spas were set up to cater to the female market. With feminine-sounding names, pink pastels, and soft floral graphics, the marketing was all focused on this one demographic.

Lineout purposefully structured its business to meet the needs of a more diverse market. With simple graphics, a bright color palette, and marketing promotion through various channels, Lineout was able to tap a broader market.

The male audience skewed older (GQ Staff, 2021). To meet the needs of men who wanted facial fillers, Lineout promotions included male-themed blogs, promotions through barbershops, and digital advertising with business and sports teams. For men "in the know," *lineout* is a rugby term. Rugged men saw Lineout as a product for them as they stepped into the facial fillers market.

On the opposite spectrum, young women had much different needs for facial fillers. Younger women primarily wanted lips that looked like the Kardashians and "line"-free foreheads, similar to what they were seeing from favorite celebrities and Instagram influencers. Media choices for women in their late teens and early twenties were primarily focused on TikTok and Instagram along with some select YouTube channels and reality shows. Lineout was able to connect with this audience by targeting messaging specific to the bigger, beautiful lip craze.

And finally, the biggest and most obvious market was middle-aged women who made facial fillers part of their skincare. Getting facial fillers for this demographic was as regular as a teeth cleaning or appointment with a hairstylist. Without hesitation, this market signed up for regular appointments and memberships that provided discounts for frequent and regularly scheduled sessions.

Lineout counted this demographic as its bread and butter. Demand from this market segment is the highest, and this consumer group is also the most discerning. Without all the traditional services offered by medical spas, Lineout had to ensure that the level of skill and the overall results were superior to other services in the market. To reach this market, Lineout created specific blogs to address the stated concerns and needs. Lineout used Facebook and select digital channels to court older women seeking facial filler services.

Although the marketing for each demographic is a bit different, the services and the experience are similar for each of the company's market segments. Men want specific things from their facial fillers, young women want something different, and

middle-aged women are even more precise. Lineout provides for each diverse need while maintaining its niche focus of only doing facial fillers.

Learn more about the company from the Lineout website and Instagram feed.

Case Questions

1. How does Lineout adapt its marketing for each of the diverse markets it serves?
2. The trend in noninvasive cosmetic procedures grows every year. What are some of the factors that have impacted the demand for facial fillers?
3. What are the factors Lineout is considering when looking at how it changes its marketing to meet the needs of its different consumer markets?
4. The various consumer groups Lineout is serving have different and unique concerns. What are some of the factors that have created the concerns?

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CHAPTER OVERVIEW

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9.1: In the Spotlight - Products

Peloton, producer of high-end home fitness equipment and streaming fitness classes, has taken advantage of the tech boom to bundle its products and service for a recurring revenue source. Peloton is known for its expensive at-home fitness bikes and treadmills aimed at a high-end target audience. Once a customer purchases a bike for $1,500–$2,600 and/or a treadmill for $3,500, most fitness companies would not expect additional revenue from a customer for several years (Peloton, 2022a; Peloton, 2022b).

But Peloton sees itself as a technology company that facilitates service. Peloton CEO John Foley has said that “we see ourself more akin to an Apple, a Tesla, or a Nest or a GoPro—where it’s a consumer product that has a foundation of sexy hardware technology and sexy software technology" (Iansiti & Lakhani, 2020). In the case of Peloton, that sexy software technology comes in the form of streaming workout classes including cycling, strength, boot camp, yoga, and meditation taught by charismatic instructors who have become social media influencers. The price tag for Peloton customers is a recurring $39 monthly fee for all access on top of the cost of the product.



Figure 9.1 Marketing strategies such as Peloton’s approach to bundling fitness products and online classes define and support the product life cycle and brand. (credit: modification of work “Woman Riding Exercise Bike” by onthegosports.com.au/SportsFanaticAustralia/flickr, CC BY 2.0)

Peloton customers are purchasing more than a one-time durable good. Instead, they are buying a networked effect in which they are connected to fitness instructors and one another. Hailed the new form of competitive advantage, networked effects bring customers closer to the brand through personal connections between the brand and customers and between customers. Once a customer is a loyal part of the network, the cost to switch brands in terms of habit and lifestyle is high. As a result, loyal customers are less likely to brand switch and are less price sensitive.

While product bundling isn’t a new concept—think about a value meal at a restaurant that includes a sandwich, fries, and a beverage—the product-service bundle is an emerging trend among technology companies. It provides recurring revenue for the brand while bringing the customer into a more intimate customer experience, leading to brand loyalty. Typically, the service fees ultimately provide more revenue per customer than the one-time product purchase in this model. The recurring revenue model makes the product facilitate the service exchange, blurring the traditional product–service lines.

What examples come to mind when you think of product–service bundles? Do you have a prediction for how this trend may shape product development in the future?

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9.2: Products, Services, and Experiences

Learning Objectives

By the end of this section, you will be able to

- Differentiate between products, services, and experiences.
- Describe how consumer and business/industrial products are classified.
- Identify the four levels of a product.

Products and Services Defined

When a customer makes a purchase, they expect value from that exchange. Think about what you ate for breakfast today. You paid money to receive a product that satisfied your hunger. Is that all the value you received? Perhaps not. If you ate eggs, bacon, and coffee at a restaurant, you had both a product and a service experience. Maybe someone at the restaurant handed you a menu, took your order, brought your food, refilled your coffee, cleaned up dishes, and collected payment for your meal. The eggs, bacon, and coffee were the product, whereas the acts of the restaurant staff were a service. And the summation of it all was the product–service experience.

Products are tangible items that are part of an exchange between a buyer and seller. Products can be seen, touched, owned, and stored. For example, the computer or tablet you're using to read this textbook is a product. You may have visited a store to see and touch the product before purchasing to ensure it meets your needs. Post-purchase, the computer or tablet is yours to own and store for later use. The tangible nature of the product allows the consumer to possess it.

Services are intangible solutions that are also an exchange between buyer and seller. Unlike products, services cannot be touched, owned, or stored for later use. For example, a college course on marketing is a service. Students cannot own the course; they cannot store it for later, nor will they have a tangible object representing the course. Another defining feature of a service is the customer is typically a part of the service experience. Imagine buying tickets to your favorite band in concert. You must attend the concert to realize the full benefit of the service experience.

While a computer is a true product and a marketing class is a true service, many exchanges between buyer and seller fall somewhere in the middle of the product–service continuum (see Figure 9.2). Think back to the restaurant breakfast at the top of this section; restaurants are a prime example of an exchange that includes products and services. Marketers typically work with an offering on the product–service continuum. This means they need to understand how to influence consumer behavior in searching for products and services.



Figure 9.2 The Product–Service Continuum (CC BY 4.0; Rice University & OpenStax)

Customer Experience

Customer experience (CX) is the overarching impression that customers have of a brand. Therefore, each touch point with a product or service becomes a part of the customer experience. A strong customer experience integrates technology, marketing, sales, and customer service to deliver a strong brand perception.

For example, if you have ever visited an Apple Store, you probably have experienced one of the most lauded customer experiences there is. From the moment you walk in, you are surrounded by products and transported into a world of technology. Each touchpoint, from the check-in on an iPad to the latest products that are available for use, reinforces the brand through customer experience. Brands with strong customer experience tend to have more loyal customers who become brand advocates.

Marketing in Practice: Netflix

Netflix has perfected the customer experience (see Figure 9.3). Using technology as a driver, Netflix predicts its customers' viewing preferences using an algorithm, removing friction from the user experience and making the brand an essential part of its customers' lives. Netflix's use of personalization is common among companies that excel in customer experience. The customer is at the center of the experience that is entirely tailored to them.



Figure 9.3 The Netflix brand is known for perfecting the streaming business by optimizing usage data to create an individualized and customized user experience. (credit: "Netflix Logo on the PC Monitor, Photographed through a Magnifying Glass" by Marco Verch/flickr, CC BY 2.0)

Once users enter the Netflix website, they see an experience that makes their viewing opportunity seamless and flexible. Netflix lets users know right away that it streams thousands of movies and television shows on various devices. The sign-up involves three easy steps, and then the customer is brought into a viewing world built around them.

The Netflix algorithm analyzes viewing habits based on a variety of factors, including

- Viewing history
- Genre or category
- Time of day watched
- How long the user watched
- Devices currently streaming
- Rating history for similar content
- Other Netflix users with similar preferences on the platform (Schneider, 2021).

As the algorithm learns more about the viewer, the customer experience improves, becoming essential to customers' lives and building brand loyalty.

Classifications of Consumer and Business Products

Product managers classify products first by whether they are consumer products or industrial products. This classification is essential because businesses typically make product purchase decisions to create a consumer good. Meanwhile, consumers are buying products for their personal use. Therefore, this distinction impacts how product managers design, market, and sell products.

Consumer products are classified into four main categories (see Table 9.1):

1. Convenience products are products that consumers can purchase easily, quickly, and without a lot of thoughtful decision-making. Convenience product purchases may be habitual in that the consumer buys the same brand each time. In addition, they are typically lower-priced and have wide distribution, making them easily accessible to consumers. Frozen waffles, bar soap, milk, and bathroom cleaners are examples of convenience products.
2. Shopping products require more thought from the consumer. Consumers may research and shop around for shopping products, seeking the best quality or price. Shopping products are typically available at a few retail stores and online and may be priced higher than convenience products. Exercise equipment, technology, clothing, and airline tickets are shopping products.
3. Specialty products have unique qualities that consumers will make an extra effort to seek out. The product's unique nature typically means that the consumer will not comparison-shop and will spend a significant amount of time and money to procure the product. Luxury cars, rare breeds of saltwater fish, fine art, and jewelry are examples of specialty products.
4. Unsought products are consumer goods that a buyer doesn't anticipate purchasing. As a result, the consumer is often unaware of the product or does not think it is needed. A flat tire that needs repairing, a roof damaged in a storm that needs to be replaced, and funeral services are examples of unsought products.

Table of Types of Products

Type of Product	Price	Consumer Decision-Making Process	Distribution
Convenience	Low	This is a habitual/automatic purchase process that involves little comparison shopping.	Widespread distribution at several retail outlets
Shopping	Low-Mid	Time is spent on the consumer decision-making process and comparison shopping for price and quality.	Selective distribution at retail outlets that match customer and brand type
Specialty	High	Having a specific brand or product in mind means little comparison shopping. Typically, this is a special purchase with a lot of planning.	Exclusive distribution at one or a select few retail outlets
Unsought	Variable	Consumers are unaware or uninterested, so they exert little thought or comparison shopping.	Variable distribution depends on the product

Table 9.1 Types of Products

Classifications of Business and Industrial Products

Businesses purchase products to aid in manufacturing or creating consumer products or services. For example, if you have ever been to a doughnut shop, you might think about how the bakers produce a doughnut. The bakers have probably purchased baking equipment, ingredients for the doughnuts, boxes to package the doughnuts, and a service to make deliveries. Business and industrial products are classified as follows:

1. Raw materials are the products that a business needs to purchase to make a consumer good, such as flour, sugar, and yeast, as in our doughnut example.
2. Manufactured materials and parts are products used to create the product. For example, large baking sheets are manufactured materials specific to a bakery and purchased to enable product creation.
3. Capital items are assets that are valuable to the business and have tangible value. For example, our bakery's large ovens would be considered a capital item.
4. Supplies and services are goods and services typically disposed of and do not contain a tangible value. For example, the bakery's boxes are part of its supplies to package doughnuts.

The Three Levels of Product

In marketing, we often say that consumers do not make rational decisions—this consumer decision-making process ties directly to how we think about products. Therefore, product marketers should ask themselves, “What’s the problem the consumer is trying to solve?” The answer to this question gets to the root of the core product. The core product is what your customer is actually buying: convenience, ego, ease, flexibility, etc. For example, if you have ever purchased single-use plastic water bottles, you were likely purchasing a core product of convenience.

The second level of a product is the actual product: a toaster, a waffle, or a sports car, for example. The actual product includes the product features, brand, level of quality, packaging, and design.

The third level of a product is the augmented product: warranties, customer service, product support, etc. The augmented product is the unseen aspects of the product essential to its service to you. For example, Butterball launches a turkey talk-line that provides tips on cooking the perfect Thanksgiving turkey each Thanksgiving. So if you have questions about turkey roasting, the talk-line is ready and waiting to answer them with this augmented product. A hotel might provide concierge services to obtain tickets to events or limousine service, dry cleaning services, recommendations for local restaurants, etc. All of these would be augmented services. (see Figure 9.4).

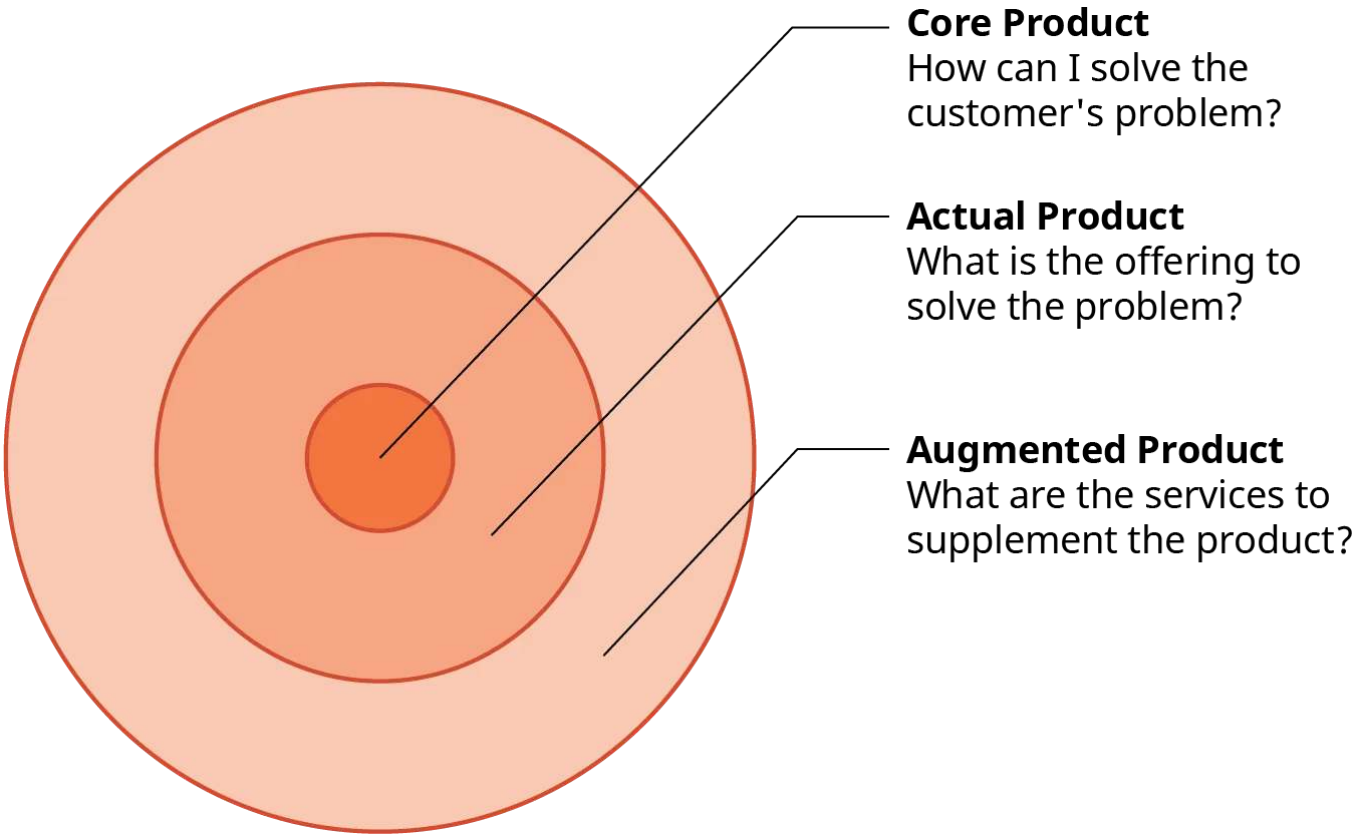


Figure 9.4 Three Levels of a Product (CC BY 4.0; Rice University & OpenStax)

Careers In Marketing: Product Marketer

A product marketer, also sometimes known as a product marketing manager, promotes a product and its features to a target market. Learn more about this job role through this article from HubSpot, including a job description, necessary qualifications, and job responsibilities. Also, check out this video from a Google employee about being a product marketer.



If this job interests you, check out this article from Indeed that outlines more details, including the typical salary, necessary skills, and education requirements. Or refer to this guide on how to take the next step and get a job in product marketing.

Lastly, to start preparing for a job in this role, check out this mock interview for the product marketing manager role.



Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Which of the following is the best example of a pure service?

a. Haircut
b. Meal at a restaurant
c. Frozen waffles
d. Sports car

2.

Jorge visited his favorite retailer to find that the store had transformed into a space with product demonstrations, product trials, and technology, which improved his overall perception of the brand. This is called a(n) _____

a. product
b. service
c. experience
d. advertisement

3.

A package of gum at the checkout of a grocery store is considered a(n) _____ product.

a. convenience
b. shopping
c. specialty
d. unsought

4.

Potbelly Sandwich Shops use paper bags to hold customers' sandwiches. What type of industrial product is the bag?

a. Raw materials
b. Manufactured materials and parts
c. Capital items
d. Supplies and services

5.

At the beginning of this chapter, we learned about the Peloton brand. Peloton users use not only the physical bike but also online classes with an instructor to stay fit in their own homes. This need represents the _____ product.

a. core
b. actual
c. augmented
d. valued

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9.3: Product Items, Product Lines, and Product Mixes

Learning Objectives

By the end of this section, you will be able to:

- Define product items, product lines, and product mixes.
- Describe product line length and depth.
- Discuss product line filling and product line stretching.

Product Line Length and Depth

Companies typically sell many products, some of which are singular and some of which are part of a larger category of offerings. So, let's start with a product item, a particular good that a company sells. For example, Domino's Pizza sells its original hand-tossed pizza as a product item on its menu.

A company will also sell a product item as a part of a broader product line. A product line is a set of products that are similar or complementary. For example, Domino's sells crunchy thin, handmade pan, Brooklyn style, and gluten-free crust along with its hand-tossed pizza crust as a part of a product line.

A product mix contains all the products that a company sells. In addition to pizza, Domino's sells salads, sandwiches, appetizers, pasta, desserts, and beverages. These products make up the product mix for Domino's (Figure 9.5).

Brands can benefit from organizing into product lines and mixes. For example, if you have ever added a chocolate lava cake to your Domino's order, you know firsthand that products within a mix are easily cross-sold. You may have also seen a commercial where Domino's promotes its product mix, creating efficiencies in its media advertising spend. In addition, the breadth of products provides some assurance that competitors will not compete in the same space. Finally, you may have noticed that some appetizers and desserts are packaged in the same box, creating supply efficiencies.

On the flip side, if product offerings are too similar, they may cannibalize (or steal from) the original product, resulting in lower profitability. For example, if Domino's had 30 types of pizzas, the stores might have to stock extra ingredients to make those pizzas, but Domino's might not sell more pizzas as a whole because the product line offerings are too similar.



Figure 9.5 A product item, like a pizza from Domino's Pizza, is part of a company's product mix—all of the products it sells. (credit: "Saki's Pizza" by thepizzareview/flickr, CC BY 2.0; modification of work "Salad" by Jackie L Chan/flickr, CC BY 2.0; "Pasta with Homemade Baguette" by Stacy Spensley/flickr, CC BY 2.0; "Mmm... I Want Everything on Mine" by jeffreyw/flickr, CC BY 2.0; modification of work "Chocolate Fudge Brownies" by start cooking Kathy & Amandine/flickr, CC BY 2.0; modification of work "Fast Food Chicken Nuggets" by Walt Stoneburner/flickr, CC BY 2.0)

Product Line Depth and Product Mix Width

Product line depth refers to the number of products in the line. Using our previous example, Domino's carries five products in the pizza product line. Meanwhile, the product mix width refers to the number of product lines a brand carries. Domino's offers seven product lines within its product mix (pizza, salads, sandwiches, appetizers, pasta, desserts, and beverages).

The product line depth and product mix width allow a company to diversify its offerings to maximize customer loyalty and mitigate risk. For example, if a customer enjoys Domino's Pizza, they may extend their order to include one of the other offerings in the product mix. On the flip side, if a customer has a bad experience with the pizza, they might try chicken or pasta instead next time. However, it is essential to note that too many offerings can cannibalize one another and drive up the cost of goods sold because of the variations that each product requires.

Product Line Filling and Product Line Stretching

One of the reasons for an ample product line is to leave no room for competitors to solve a customer's need. Companies use a product line filling strategy when they add products to the product line to ensure that competitors do not enter their market. If you wonder why Domino's has so many pizza toppings, consider that it might be product line filling at work.

On the other hand, it might make more sense for a company to add product lines. The addition of product lines is a practice called product line stretching. There are three main ways to stretch a product line:

1. **Stretching Downward.** A brand introduces a product line that is less expensive than its current offering. This may open a new target market or change a brand's positioning in a competitive market. However, it is essential to consider whether stretching down might shift the brand's perception or take share from other product lines. Tesla introduced its Model 3 following its more expensive Model S, following the stretching downward strategy (Davis, 2010).
2. **Stretching Upward.** A brand introduces a product line that is more expensive than its current offering. This may increase profitability or reposition the brand. First, however, it is essential to determine whether the brand has equity in the upward market. Godiva introduced its gold collection to stretch its product line upward.
3. **Stretching Up and Down.** A brand can stretch up and down simultaneously. While this has the potential for great rewards, it also introduces a fair amount of risk. Dell utilizes a strategy to stretch up and down with its everyday access laptops, creator laptops, and up to its immersive gaming laptops.

Suppose Domino's wanted to join the wood-fired pizza trend. It could employ an upward product line stretching strategy to introduce Domino's to a more upscale market that appreciates wood-fired pizza.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Oreo's selection of flavors would be considered a _____.

a. product
b. product line
c. product mix
d. product category

2.

A product mix contains _____.

a. a mix of the company's most popular products
b. a singular product
c. all the products that a company sells
d. a group of similar products

3.

If Domino's were to add a Chicago-style stuffed pizza to its menu, this would represent an expansion of the _____ of its pizza offerings.

a. product line depth
b. product mix width
c. product items
d. product differentiation

4.

Product line depth refers to _____.

a. product characteristics
b. the number of product lines
c. product assortment
d. the number of products in the product line

5.

Which of the following is a benefit of product line filling?

a. Less money spent on research and development
b. Protection against competitors
c. Creates a product line assortment
d. Stretches the product line

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9.4: The Product Life Cycle

Learning Objectives

By the end of this section, you will be able to:

- Define the product life cycle.
- List and describe the stages of the product life cycle.

The Product Life Cycle

Have you ever wondered what happens after a new product launch? Is the product successful right away, or does it need a little help from marketing to realize its potential? Then, as the product matures, does it stay on the shelf, or does it have a natural endpoint? The product life cycle (see Figure 9.6) maps the stages a product goes through, tracking its sales and profitability.

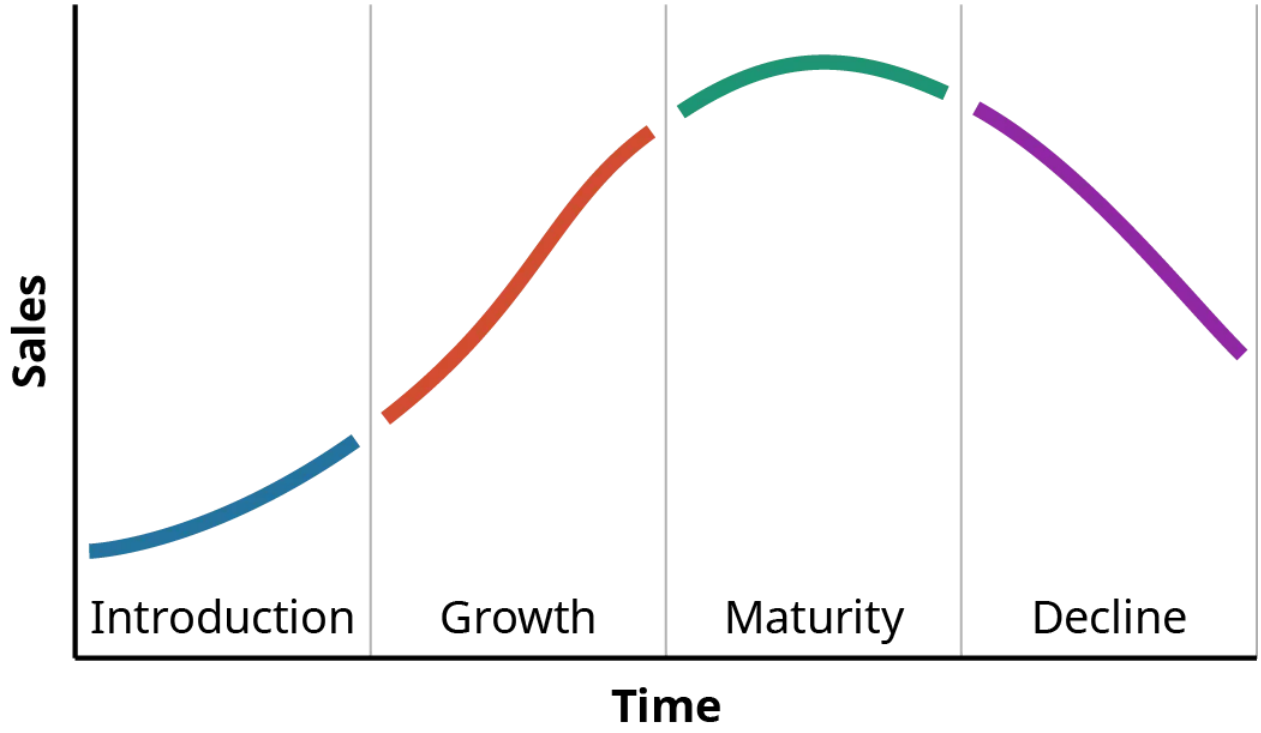


Figure 9.6 The Product Life Cycle (CC BY 4.0; Rice University & OpenStax)

The Product Life Cycle Stages

The product life cycle begins in the introduction stage. This is when consumer awareness is building and sales are starting to grow. The marketing investment is high as brands invest heavily in advertising and sales promotion to encourage trial. Profitability is low due to costs to launch and scale a new product. What products can you think of that are in the introduction stage of the product life cycle?

Once a product catches on in the marketplace, it enters the growth stage of the product life cycle. The growth stage is characterized by increasing sales and the potential for copycat brands to enter the market once they see revenue and profitability. In addition, products require less marketing and distribution investments during the growth stage, making them more profitable. However, a brand can decide to invest in product improvements and distribution, which may decrease profitability in the short term in exchange for long-term gain. When hoverboards were new to the market, they experienced explosive growth that quickly tapered off.

The product enters maturity when sales growth slows and profitability levels taper off. The maturity stage is typically the longest stage of the product life cycle, with products remaining in this stage for years or even decades. Profitability may remain if the brand

has a solid competitive advantage or decline if too many competitors enter the market. Marketing investment can increase at this stage if the brand has a rival, and product modification can alter the product to meet consumers' needs. Yet often, a brand will retain a low level of marketing during the maturity stage to remind consumers of its benefits. Kraft Macaroni & Cheese is an example of a product with a solid place in the market and stabilized as a mature product.

Eventually, most products enter the decline stage. The decline stage is characterized by a significant decrease in sales and profitability. Sometimes, the decline occurs because the market has changed: technology has evolved, consumer tastes have shifted, or the need that the product satisfies is no longer relevant. Other times, the product is pushed out by rising costs or competitors. Many companies report their earnings quarterly and do not want to keep an unprofitable brand in their portfolio. As a result, companies typically try to divest a product in the decline stage. Another company may pick up the brand, invest in it, and return the product to a growth or maturity stage. Apple's iPod entered the decline stage when the popular iPhone was introduced, bringing a host of features plus music.

It is important to note that products do not always travel through the product life cycle at a linear rate, nor do they all travel through all product life cycle stages. For example, a product can be introduced and never gain traction, so it goes directly from introduction to decline. Or a product might gain popularity rapidly during the growth stage and then meet a quick decline. This phenomenon occurs when products are fads.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Which of the following is NOT a stage of the product life cycle?

a. Introduction
b. Growth
c. Maturity
d. Profitability

2.

Which criterion does the product life cycle use?

a. Sales
b. Profitability
c. A and B
d. None of these are correct.

3.

Which stage of the product life cycle is characterized by a rapid increase in sales?

a. Introduction
b. Growth
c. Maturity
d. Decline

4.

Which stage of the product life cycle is characterized by stable sales and profitability?

a. Introduction
b. Growth
c. Maturity
d. Decline

5.

Which of the following is a reason that brands may not follow the product life cycle sequentially?

a. Brands can grow rapidly.
b. Brands can skip the product life cycle altogether.
c. Brands can be a fad.
d. Brands can skip to maturity right away.

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9.5: Marketing Strategies at Each Stage of the Product Life Cycle

Learning Objectives

By the end of this section, you will be able to

- Discuss marketing strategies in the introduction stage of the product life cycle.
- Classify marketing strategies used in the growth stage of the product life cycle.
- Characterize marketing strategies used in the maturity stage of the product life cycle.
- Identify marketing strategies used in the decline stage of the product life cycle.

Marketing Strategies in the Introduction Stage

The introduction stage is characterized by awareness-building to encourage trial. There is a significant investment in marketing activities at this stage to make the shift from early adopters to a broader audience, and pricing is a means of enticing trial.

A rapid skimming strategy sets a high price along with extensive advertising and sales promotion to establish the product in the marketplace. This strategy allows a product to gain share quickly and fend off potential competitors. Technology innovations typically use a rapid skimming strategy to attract early adopters willing to pay a higher price.

In contrast, a slow skimming strategy may be utilized when there is no anticipated influx of competitors. The slow skimming strategy sets high prices with low advertising and sales promotion investment. For example, we may see a rapid skimming strategy for the new model of a truck or SUV in the automobile market because competition is high and the barrier to entry is low. On the other hand, the Tesla brand used a slow skimming strategy in its initial launch with a high-priced offering making it exclusive.

A rapid penetration pricing strategy is appropriate when volume sales will increase market share quickly, and a lower-priced strategy is employed. Rapid penetration pricing strategies encourage customers to try a product and switch to a new brand. This strategy works well with product categories with many competitors and price-sensitive customers. For example, Old Navy used a rapid penetration pricing strategy when it opened its stores in 1994 with an $8 jeans promotion under the assumption that if customers tried its jeans, they would be hooked and become brand advocates.

In contrast, a slow penetration pricing strategy establishes low prices and low promotion to capture share more slowly in a market that typically does not readily react to promotion. Products that do not have a lot of brand equity and are necessities do not respond to promotion readily and are appropriate for a slow penetration pricing strategy. For example, if a store brand of butter were to establish an everyday low price without promotion, it would be adopting a slow penetration pricing strategy.

Marketing Strategies in the Growth Stage

The growth stage is characterized by growing sales and increasing market competition. Investment in product and place is essential at the growth stage to maximize market share and scale quickly.

Brands may improve product quality or add new features in the growth stage based on early lessons from the introduction stage and to fend off competitors. Products with a first-mover advantage may find competitors who replicate their products entering the market, so product improvement is essential. For example, OXO is a brand that uses universal design to innovate and make products easier to use. This continuous product improvement makes it a leader in the kitchenware market.

Once a product becomes mainstream in the growth stage, expanding distribution channels can increase market share. While expanded distribution adds expense, it also brings the product to more customers in various settings. For example, Chicago-based Home Run Inn Pizza was so famous in the restaurant format that it expanded to grocery stores to increase share.

Finally, brands use promotion to shift their message from awareness to preference. The shift from a niche market to a mass market typically involves an advertising investment. In 2021, TikTok moved from awareness to preference, and its promotion followed suit, reminding users why they enjoy using the platform.

Marketing Strategies in the Maturity Stage

Stability characterizes the maturity stage: profits, customers, and pricing. While this sounds like good news, brands must defend their market share from increasing product replication and product innovation from competitors.

Products in the maturity stage may engage in market modification, extending the product to new customers. For example, Cheerios adopted a market modification strategy when it positioned its cereal to the aging baby boomer demographic as a heart-healthy breakfast. This strategy opened a new market for Cheerios to increase its market share.

Products in the maturity stage may also engage in product modification, altering products to fit the market. Modifications may be made to the function of the product, the quality of the product, and/or the style of the product. For example, Chobani modified its yogurt product in 2015 by altering the container, allowing the customer to flip toppings into yogurt, and changing the functionality of the yogurt and topping product (Ferdman, 2015).

Marketing Strategies in the Decline Stage

The decline stage of the product life cycle is characterized by declining sales and profitability. The product is at the end of its life cycle and is no longer sustainable or a good investment. Brands reduce to a core set of activities and set out to divest the brand asset.

A brand might divest a product to protect the rest of its portfolio, either by selling the brand or discontinuing it. For example, the Coca-Cola brand divested New Coke in 2002 after 17 years on the market in various forms (Fogarty et al., 2018). The product was taken off the shelves because it was unsuccessful in the marketplace.

A brand might also choose to harvest an unsuccessful product. Harvesting involves reducing all unnecessary expenses to retain any remaining revenue. In addition, harvesting allows the brand to invest cash in its more profitable products. Typically, products do not reemerge after harvesting and more often are divested over time. Technology products, such as smartphones, are often harvested as their up-to-date replacements hit the market. Refurbished products may be sold at a discount or used for parts for new models.

Knowledge Check

It’s time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Mohammad's Shoe Company is expanding distribution for its most popular shoe line. The shoe line is in the _____ stage of the product life cycle.

a. introduction
b. growth
c. maturity
d. decline

2.

Jia has established a rapid skimming strategy for her ice cream shop. The ice cream shop is in the _____ stage of the product life cycle.

a. introduction
b. growth
c. maturity
d. decline

3.

Carlos has ceased all nonessential spending for his computer repair business. The computer repair business is in the _____ stage of the product life cycle.

a. introduction
b. growth
c. maturity
d. decline

4.

LaToya has found a new market for her restaurant by expanding to catering. The restaurant is in the _____ stage of the product life cycle.

a. introduction
b. growth
c. maturity
d. decline

5.

Jamie’s legal business has had some early success and decided to add estate planning to its business portfolio. The legal business is in the _____ stage of the product life cycle.

a. introduction
b. growth
c. maturity
d. decline

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9.6: Branding and Brand Development

Learning Objectives

By the end of this section, you will be able to:

- Define branding and discuss its benefits.
- Discuss ways in which an organization can build strong brands.

Branding

A brand is an intangible asset with tangible value. We cannot see, touch, or put a brand on a balance sheet. Rather, a brand is a feeling that is made up of the organization's promotion efforts along with consumer meaning. The value of a brand is challenging to measure, but it is often the most valuable part of a company.

Think about the Harley-Davidson brand (see Figure 9.7). What images and feelings does it evoke? Those images and feelings are its brand, and companies spend a lot of resources developing and nurturing their brands. The brand is the reason that customers purchase and advocate. A brand is the feeling associated with a product or service that gives it currency in the marketplace. The brand is the essence of the product or service and must be reinforced at every touch point. The marketing team at Harley-Davidson knows this all too well. Brand is Harley's business, and the company knows that every product, every promotion, and every event must reinforce the brand, which will build value over time to become a significant asset.



Figure 9.7 A brand like Harley-Davidson is an intangible and valuable asset whose tangible value to a company is created by an organization's promotional efforts. (credit: "Harley Davidson" by informedmag.com/flickr, CC BY 2.0)

Branding is the process of developing a brand. Successful brands engage their customers on a personal level, connecting to their emotions and needs. Some of a brand's assets, such as the brand name, brand mark, or brand positioning, can be influential in creating a feeling about a brand.

Link to Learning: Logos

Visit the Harley-Davidson website for more logo examples. While looking at the logos, think about its name. What emotions are associated with the brand name and mark? While marketing teams can influence how a brand is seen in the marketplace, consumers often define the brand.

Did you know that the colors used in logos have meaning? This website shares a handful of stories behind the colors of famous logos.

Brands are created experiences that are shared among most loyal customers. Harley-Davidson customers experience the brand together through events and organized rides, creating brand meaning and contributing to the overall feeling.

Benefits of Branding

The central benefit of branding is establishing a connection with customers that encourages them to purchase the brand, creating a financial return. But you may be wondering how companies can measure the impact of their brand. Brand value is the financial asset associated with a brand. Brand valuation occurs when a company is sold and becomes a part of the financial transaction, along with the assets and liabilities on the company's financial statements. There is no singular measure of brand value, so the valuation process is subjective and may be based on brand visibility, customer loyalty, and perception of the brand, along with financial measures such as revenue.

Brand equity is the additional value that a brand has over a substitute. If a consumer will pay more for one similar product over another because of the brand, that difference represents its brand equity. For example, Tide, owned by Procter & Gamble, is the market leader in the laundry space (Statista.com, 2022). While its product may not differ significantly from its competitors, Tide demands a higher price because of its brand equity. The brand equity measure is the amount a brand with equity can charge over its counterparts. Take a moment and look up the price of Tide and a few competitors. What does that tell you about Tide's brand equity?

Kevin Lane Keller developed the brand equity model to illustrate how brands can develop equity. He postulated that if a brand could develop positive associations, it could charge more than its competitors. The model begins with defining a brand through its identity. Brands should answer the question: *Who are you, and how do you solve the consumers' needs?* The second level of the model determines a brand's meaning. On one hand, *How well does the brand perform, and on the other, how does it meet consumers' social and psychological needs?* The third level of the framework is about feelings and thoughts. In other words, *What do consumers think of your brand, and what judgment do they make about it?* Finally, the top of the pyramid examines brand resonance, or how much connection, engagement, or loyalty the brand has with its consumers (Keller & Swaminathan, 2020).

Link to Learning: Keller's Brand Equity Model

Keller's brand equity model is a prevailing framework that scholars use to think about the concept of brand equity. Check out this article to learn more about the model and how you might apply it to a brand.

Building Strong Brands

If a brand is a combination of the efforts made by the marketing team and how consumers think, feel, and act, then there is some room for the marketing team to build a strong brand. A strong brand is resonant in the minds of consumers and solves their problems.

Building a strong brand begins with brand positioning, or the way the brand signals emotions in consumers' minds. Brands can position themselves based on an attribute—one aspect of the product or service. For example, Taco Bell has positioned itself as the option for late-night cravings. This singular aspect defines its positioning. The problem with positioning based on an attribute is that it is easily replicable by competitors.

The second method of positioning is benefiting the consumer—how the product or service solves the consumer's problem. For example, the Eggo brand's positioning is convenience. The brand solves the consumer's morning rush issue by providing a convenient breakfast solution. The benefits positioning works well for convenience products.

Lastly, a brand can position itself based on values. Values-based positioning is the most robust brand positioning because it links to a consumer's personal beliefs. For example, Ford uses the language "Built Ford Tough" in its advertising to connect to American values of hard work and determination. Ford's strategy is particularly effective because brands can connect to consumers' sense of self and how they show up to the world.

A product's brand name also focuses on consumer feelings, thoughts, and attitudes. Therefore, marketing teams spend a lot of time selecting brand names that evoke a feeling harmonious with the brand. A strong brand name also helps consumers see the benefit of the brand. For example, a favorite of many, Kellogg's Frosted Mini-Wheats, tells the consumer that they are eating something made of wheat with a touch of sugar.

A brand name should also translate effectively into a variety of languages. Finally, a brand name should be unique to that product. For example, we all know that the brand Pop-Tarts is a toaster pastry that pops out of a toaster. This is a distinctive element of the

Pop-Tarts brand exemplified by its name.

Brands use trademarks (service marks) to ensure they are protected under the law. According to the United States Patent and Trademark Office (2022), a trademark can be any "word, phrase, symbol, design or a combination of these things that identified your goods and services." Brands can trademark their names, logos, packaging, or even specific colors that represent the brand. This ensures that competitors do not replicate a known brand and cause confusion among customers. You will know a brand is trademarked if you see a "TM" or "R" near the name or logo. Take a peek in your pantry to view trademarks on food packaging.

Brands can be owned in one of four ways: national brand, private brand, licensed brand, or co-brand. Each has its unique advantages and disadvantages, which will be discussed in this section.

National brands are the name brands that sell a product or service under its corporate name and identity. Brands such as Heinz, Glaceau Smartwater, and Morton's Salt are examples of name brands. Brand equity commands higher prices, so national brands typically charge higher prices than their private brand counterparts. National brands often pay for premium retail space, making them a convenient choice for shoppers. However, price-sensitive shoppers may be turned off by the higher prices of national brands.

Private-label brands are store brands that are similar products to a national brand and labeled privately. If you have shopped at a Walgreens, you may have seen its private-label brand of products that begin with the prefix *Wal-*. A McKinsey study indicates that price accounted for 45% of brand switchers from national to private brands, while lack of availability was a secondary reason (Begley & McOuat, 2020). The same study suggests that customers can develop loyalty to private-label brands. However, the private-label brand must create a point of differentiation relevant to the target audience in the same way that a national brand would.

Licensed brands provide the likeness of their brand as a fee for use. If you wear eyeglasses, you likely have a licensed brand name on your eyeglasses frame. Brands such as Tiffany & Co., Kate Spade, and Tommy Hilfiger do not produce eyeglasses frames. Rather, they license their brand to manufacturers like Luxottica, an Italian eyewear company that makes the product with the licensed brand name. Licensing a brand is a quick way to gain recognition and benefit from the brand's equity. On the other hand, licensing fees can be costly and ultimately reduce profitability for manufacturers.

Finally, two or more brands may collaborate to co-brand a product. Co-branding brings the equity of each brand together for greater value. For example, Doritos and Taco Bell developed Doritos Locos Tacos, a co-branded line of tacos that feature Doritos as the shell and Taco Bell ingredients as the toppings. In this case, the two brands had a similar target audience and could benefit from the awareness and equity of the other. However, co-branding necessitates a revenue split, which could impact financial results for each brand. Table 9.2 lists the advantages and disadvantages.

Advantages and Disadvantages of Brand Types

Brand Type	Advantages	Disadvantages
National brands	Well-known by consumers; OK to charge more	Some consumers unwilling to pay more than for private-label brands
Private brands	Attract price-sensitive customers	More difficult to build brand equity
Licensed brands	Gain brand recognition and benefit from brand equity	Expensive licensing fees
Co-brands	Benefit from the equity of both brands	Revenue split between two or more brands

Table 9.2 Types of Brands: Advantages and Disadvantages

Marketing in Practice: Trader Joe's

Most of us do not love our weekly grocery shopping trip. Aisles upon aisles of boxes, cans, and cartons lining shelves create monotony in shopping for the food that nourishes us. We have trudged through supermarkets, pilling items into our carts uninspired—until Trader Joe's entered the scene.

Trader Joe's has taken the drudgery of grocery shopping and created a customer experience. Using the tenets of the Blue Ocean Strategy, Trader Joe's removed the costly parts of the traditional grocery store such as a large footprint and overwhelming stock that do not add to the customer experience. And it added Hawaiian shirts, friendly employees, interesting food selections, and a much smaller store. The result is a true neighborhood store that is so popular that Trader Joe's fan groups have popped up all over the Internet, and the cult brand has continued growth since its inception.

So, what's the magic in creating an experience out of what used to be a chore? Trader Joe's looked at the customer experience from beginning to end to determine what its shopper values and what can go by the wayside.

Trader Joe's prioritized building its culture through empowering its "crew members." Employees at Trader Joe's are interviewed for enthusiasm and cross-trained throughout the store's operations (Mallinger & Rossy, 2007). Crew members are Trader Joe's fans themselves, are known for giving recommendations to customers, and are empowered to connect with them, adding to the neighborhood feel of the store. The food at Trader Joe's is interesting to the shopper, much of it convenient and ready to eat. Trader Joe's leverages social media to put its food front and center with recipes and easy-to-prepare pairings. Trader Joe's thinks about the in-store experience and stocks about 10% of the food of a normal supermarket, making choices easier on the customer (Wilkinson, 2021).

Link to Learning: Interbrand's Best Global Brands

Interbrand ranks the best global brands annually. Take a look at the Interbrand website to see which brands make the top 100 and consider what attributes led them to the top of the list.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Which of the following is a benefit of a brand?

a. Consumers always choose name brands.
b. Brands can command higher prices.
c. Shareholders demand strong brands.
d. Every company must have a brand.

2.

Which of the following describes the financial asset associated with a brand?

a. Brand price
b. Brand name
c. Brand equity
d. Brand value

3.

Which of the following is NOT a means of brand positioning?

a. Value
b. Benefits
c. Brand equity
d. Attributes

4.

The Whole Foods 365 brand is an example of a _____.

a. national brand
b. private brand

c. licensed brand
d. co-brand

5.

Uber and Spotify teamed up to bring custom playlists to Uber rides. This is an example of a _____.

a. national brand
b. private brand
c. licensed brand
d. co-brand

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9.7: Forms of Brand Development, Brand Loyalty, and Brand Metrics

Learning Objectives

By the end of this section, you will be able to

- Identify branding strategies.
- Describe degrees of brand loyalty.
- Discuss metrics that can be used to measure brand strength and value.

Brand Development

New products can be added to a brand at any time. There are a few ways to add products that are classified on two measures: new/existing brand name and new/existing product category (see Figure 9.8).

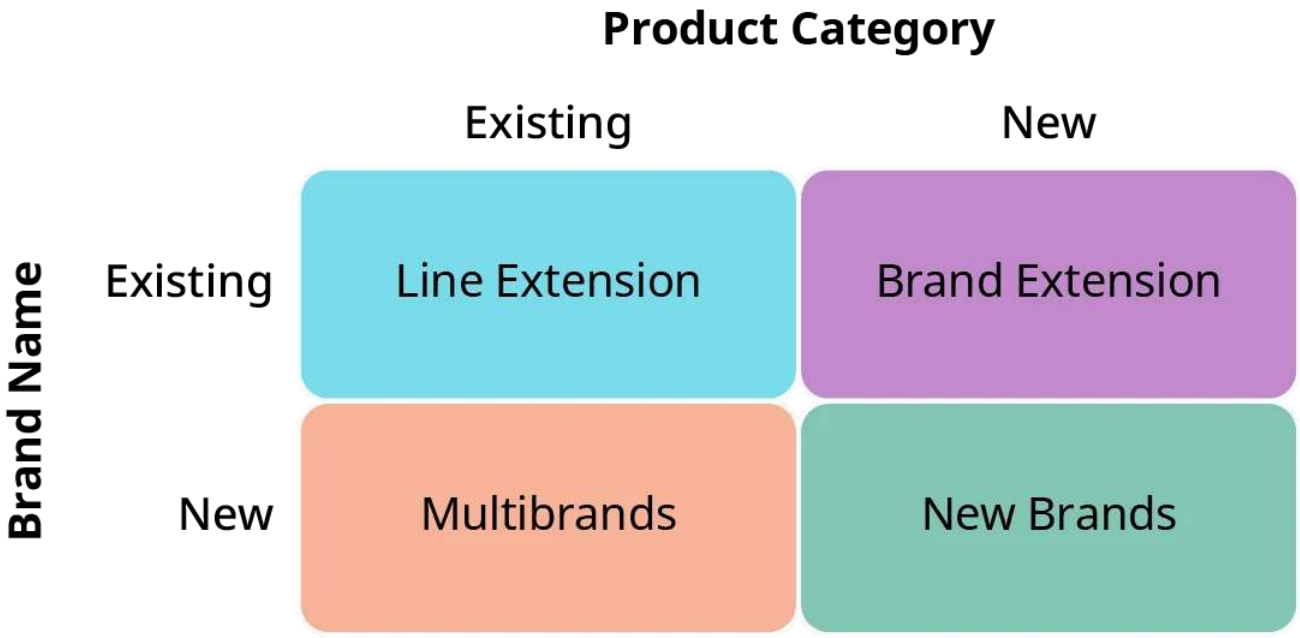


Figure 9.8 Brand Development Matrix (CC BY 4.0; Rice University & OpenStax)

Line extensions create new opportunities for an existing product and brand to serve customers. For example, the Oreo brand adds flavors to its product line for holidays. These line extensions provide the existing brand with an extension of its current product. As a result, a line extension may sell more products to already-aware and interested customers without many risks. However, sometimes brands may overextend their product lines such that products may be too similar, failing to increase sales.

Brand extensions leverage the brand name to new product categories. For example, Starbucks developed a line of bottled coffees under its corporate brand name. A brand extension uses awareness and equity in the brand to gain instant recognition and affinity for the new product, which may increase sales rapidly. However, if the new product is inferior to the brand's known quality, the entire brand portfolio may be at risk.

Multibrands are new brand names within a company's existing product category. For example, Nabisco manufactures various cookies within a product line but is marketed with different brand names. In this case, Chips Ahoy, Oreo, and Teddy Grahams all have brand equity on their own and do not need the benefit of the Nabisco brand. Each of these brands has a significant market share, so there is a benefit to retaining a multibranding approach. However, a multibranding approach does not work when the products have a small market share or fail to gain favorable retail shelf space to encourage sales.

New brands are an entirely different entity from the parent company. A new brand strategy can be effective if the new product or service is markedly different from the existing offering and benefits from its own branding. For example, the Starbucks brand owns Ethos Water. Ethos is in a beverage category other than Starbucks's primary offering and retains its name. A new brand strategy

works well when the new brand is distinct from the parent brand and has a defined target market and positioning; however, a marketing strategy for a new brand can be expensive to maintain over time.

Brand Loyalty Levels

As you can see, brands spend time and resources to gain loyal customers. Loyal customers are the holy grail of marketing because they will purchase your brand and advocate for the brand to others. Loyal customers become instant word of mouth, spreading the positive attributes of a brand. However, not all customers are intensely loyal to one brand. Instead, customers fit into one of four loyalty categories (see Figure 9.9).

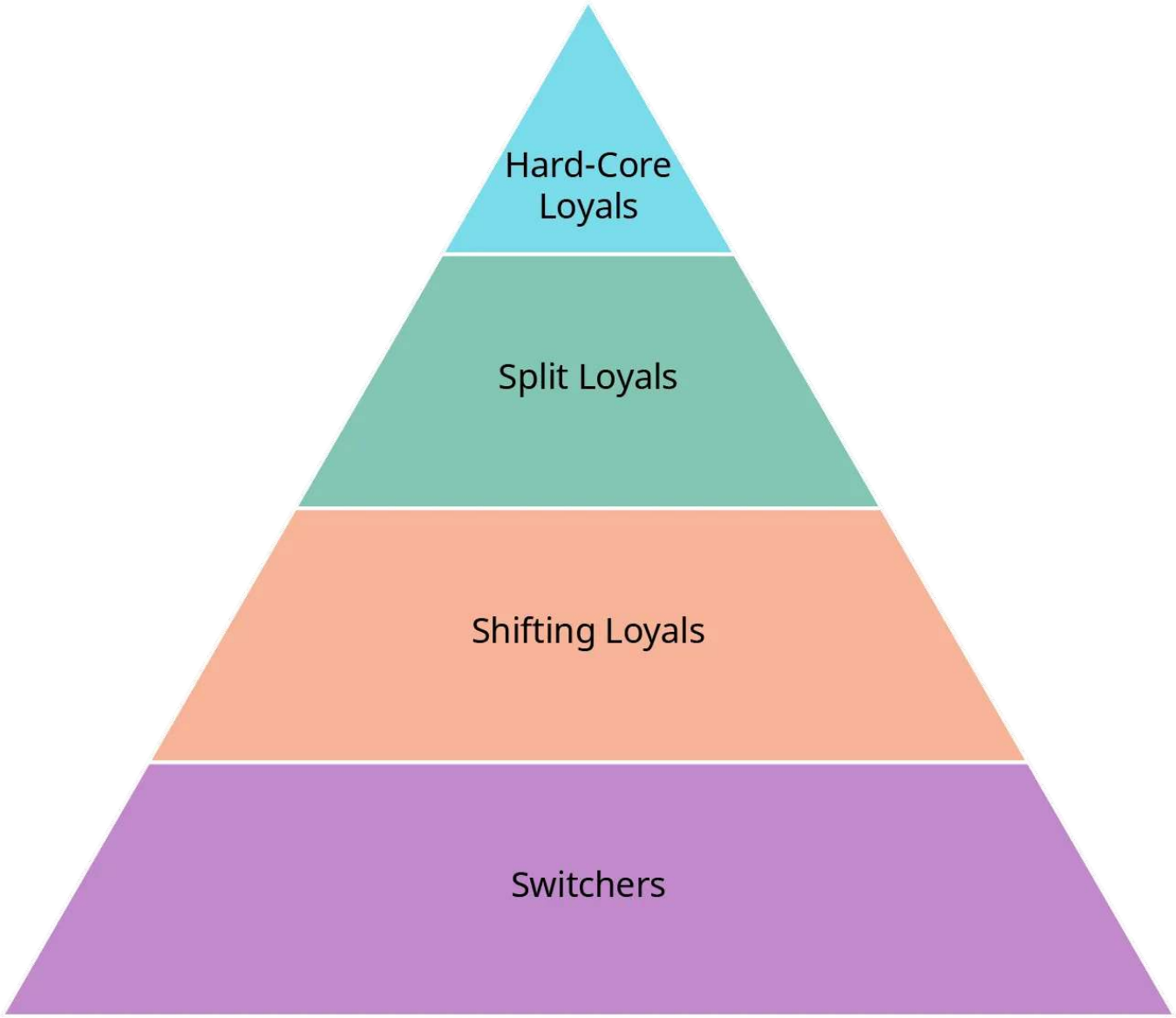


Figure 9.9 Loyalty Categories (CC BY 4.0; Rice University & OpenStax)

Switchers are customers who continually change their purchasing behaviors. Switchers may be motivated by price, convenience, or innovation. Therefore, developing a product or service that meets the switching consumers' needs is essential to retain them as customers. For example, a switcher might purchase the lowest-price laundry detergent each time they are at the store.

Shifting loyals are customers who are loyal to one product or service for a time, then turn their loyalty to a different product or service for the second period. Brands can expect shifting loyal customers to move back and forth between products and services. For example, a shifting loyal might purchase a Toyota followed by a Honda, then turn their loyalty back to Toyota for a third purchase.

Split loyals are customers who have a consideration set of two to three products or services in the category. The split loyal is willing to buy this select set of brands on any occasion without hard-core loyalty to any in the group. However, brands can convert split loyals into hard-core loyals with product/service consistency, loyalty programs, and marketing efforts. For example, customers may be loyal to Gap, Banana Republic, and J.Crew for work wear.

Hard-core loyals are the customers that every brand wants. They are tried-and-true customers who generally only purchase one brand in a category. For example, when purchasing from a catalog, they tend to make a purchase with less concern about price. In addition, hard-core loyals often tell friends and family about their purchases, extending word-of-mouth marketing for the brand. Brands need to retain hard-core loyal customers. For example, Dunkin' knows that loyalty is essential to its business, so it rewards its loyal customers with free food and coffee through its DD Perks program.

Metrics to Measure Brand Effectiveness

Brand sentiment is challenging to measure. Unlike sales or revenue, sentiment is not easily quantifiable. However, brands must measure their effectiveness because organizations invest heavily in building brands. There are three ways to quantify a brand's impact: brand lift, brand engagement, and brand preference.

Brand lift measures perception over time. To determine whether the campaign improved perceptions, brands can survey customers and non-customers about their perception of a brand pre-campaign and again post-campaign. Keep in mind that positive perception doesn't necessarily mean that people will make a purchase; it simply indicates a positive affect toward the brand.

Brand engagement measures how deeply the customer identifies emotionally with a brand. Deeply engaged customers typically make more purchases, advocate for the brand, and become loyal customers. Social media metrics, time spent on site, subscriptions, and bounce rate are ways to measure brand engagement.

Brand preference measures consumer behavior by determining the degree to which a brand is preferred over others in the category. Brand preference is the most accurate of the three measures in predicting sales, focusing on behavior over attitudes. Marketing research is the best way to assess brand preference.

Marketing Dashboard: Profit Margins

Profit margins are a widely used financial measure to determine the profitability of a business, considering the cost to manufacture and sell a product or service and measuring how much of every dollar in sales or services your company keeps from its earnings. Cost of goods sold (COGS), describes expenses directly attributable to the product or service. It is important to deduct COGS from profitability to fully understand how much direct costs impact profitability. However, expenses don't end once manufacturing costs are considered. Companies pay for overhead, such as office space, trucks, and warehouses. They also account for depreciation on their assets, pay taxes, and incur costs for employee salaries. All of these expenses chip away at profitability. Profit margin calculates profitability after expenses.

There are two types of profit margin on an income statement: gross profit and net profit.

Gross profit margin equates to net sales minus the cost of goods sold. The gross margin shows the amount of profit made before deducting selling, general, and administrative (SG&A) costs. The formula for gross profit margin is

$$\text{Gross Profit Margin} = \text{mfrac}\times$$

The calculation is expressed as a percentage.

Net profit margin takes the calculation one step further. It deducts all expenses from profitability, including administrative, sales, amortization, debt payments, taxes, income, and asset depreciation. This provides a more accurate look at profitability because it considers all the costs associated with producing and selling the product or service. The formula for net profit margin is

$$\text{Net Profit Margin} = \text{mfrac}\frac{(\text{Expenses})}{\text{Revenue}}\times$$

The calculation is expressed as a percentage.

Suppose your sandwich shop is interested in its profit margins for a single order. Look at the chart and calculate the gross and net profit margins.

Chart for Calculating Gross and Net Profit Margins

Total revenue	$6.25
COGS	$3.50
Administrative, sales	$0.75
Taxes, depreciation, debt payments, amortization	$0.50

Table 9.3

Answer

Solution

Gross profit margin: 44%

Net profit margin: 24%

Which measure is more accurate?

Answer

Solution

Net profit margin considers all expenses, so it is a more accurate measure than gross profit margin that only considers COGS.

Your business partner, Priya, wants to decrease the revenue of a single order to $5.50. How will that impact your profit margins?

Answer

Solution

Profitability per order will decrease if revenue decreases unless COGS or other expenses are reduced in turn.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Domino's Pizza recently added sandwiches to its menu. This is an example of a _____.

a. line extension
b. brand extension
c. multibrand
d. new brand

2.

The North Face adds a new parka to its line of North Face–branded winter coats. This is an example of a _____.

a. line extension
b. brand extension
c. multibrand
d. new brand

3.

Bethany purchases a different bar soap every time she shops based on what is on sale. Bethany can be considered a _____.

a. switcher
b. shifting loyal
c. split loyal
d. hard-core loyal

4.

Jorge only purchases Apple computers and will not accept a substitute. Jorge can be considered a _____.

a. switcher
b. shifting loyal
c. split loyal
d. hard-core loyal

5.

Which of the following brand metrics measures intended behavior?

a. Brand lift
b. Brand engagement
c. Brand preference
d. Brand equity

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9.8: Creating Value through Packaging and Labeling

Learning Objectives

By the end of this section, you will be able to

- Describe how an organization creates value through packaging and labeling.
- Explain how packaging is used as a marketing tool.

Creating Value through Packaging and Labeling

If you have ever purchased from Apple, you know the power of sleek packaging. Apple is known for its simple white design packaging with metallic logos. Products are visually appealing in their packages, and unboxing an Apple product feels like an experience. Apple's packaging is as innovative as its products, which brings us to an important lesson in packaging. The package and label must represent the brand effectively (see Figure 9.10). While not one of the 4Ps of marketing, packaging is an important element of the marketing mix based on its close tie to the product. Packaging is also a critical shopper marketing tool as related to place. And, certainly, effective packaging can be its own form of promotion.



Figure 9.10 Product packaging can be a powerful promotional tool because of its close product connection, as demonstrated by Apple packaging. (credit: "iPad Pro & Apple Pencil" by Brett Jordan/flickr, CC BY 2.0)

A package essentially serves as a container for the product. It has a functional purpose to protect the product from harm. Package designers are first and foremost concerned with protecting the product and secondarily with designing an appealing package and label that piques interest on store shelves and online retailers' websites.

There are a variety of benefits to effective packaging and labeling. The first is that consumers see packaging before seeing a product. This provides a sensory experience that can influence a purchase. Colors, fonts, and logos can appeal to the eye, while packaging material can appeal to the sense of touch. These clues give a customer a sense of what to expect inside the package.

Additionally, the package reflects the brand, cuing the customer into the brand feeling. For example, LaCroix is flavored carbonated water sold in brightly colored cans. The cans, as seen below, attempt to make the customer feel the excitement of opening a tasty, carbonated beverage (see Figure 9.11).



Figure 9.11 The LaCroix can is a product container that reflects the brand and creates a feeling of fun and excitement for the customer. (credit: “Grapefruit La Croix + Flowers” by www.quotecatalog.com/quotes/inspirational/flickr, CC BY 2.0)

The functional benefits of packaging are numerous. First, a package serves to store the product to protect it from harm in transit from manufacturer to customer. Items such as foam and cardboard shield the product from damage and keep it clean. Second, packaging can also serve as convenience and safety for customers to carry items and store them in the home. For example, Tide Pods are sold in a plastic container with a child-locked lid. This packaging is convenient for customers to store the pods at home safely.

Third, packaging can aid in the product’s usability or become a part of the product experience itself. For example, drinkable yogurt is sold in small bottles. The bottles become part of the product experience when a consumer takes a sip of the yogurt. Fourth, packaging and labeling can aid in a brand’s compliance with the law. For example, the Federal Trade Commission Act of 1914 stipulates that false, misleading, or deceptive labels or packaging may be upheld as unfair competition (Encyclopedia Britannica, 2024). Thus, packaging and labeling allow a brand to be clear, accurate, and transparent in communication with customers.

Packaging can also have perceptual benefits to customers as they seek to associate with brands. Brand packaging containing logos might indicate the customer's status or signal the customer’s values pertaining to quality. Tiffany & Co. is known for its “little blue box,” a package that indicates status and a quality product inside (see Figure 9.12). Tiffany has copyrighted the blue color of the box as part of its brand’s intellectual property (Tiffany & Co., 2020).



Figure 9.12 Known for its distinctive shade of blue, Tiffany's little blue box shares the company's brand value with consumers via a perceptual connection. (credit: "Tiffany & Co - Boxes" by ajay_suresh/flickr, CC BY 2.0)

Packaging Used as a Marketing Tool

Packaging can be used to differentiate a brand, either through design or functionality. For example, beautifully designed packages, such as Tiffany's little blue box, differentiate the brand through its status. Meanwhile, functional packaging, such as potato chip bags filled with air, serves as differentiation to deliver un-crushed chips.

Packaging can also create a customer experience. Unboxing a product can contribute to the positive emotions associated with a brand. Artisans who sell goods on Etsy understand packaging as a contributor to customer experience. Artisans often take special care to package goods beautifully with a handwritten note of gratitude. Personalization and packaging make Etsy customers feel involved in an experience.

Packaging can display the value of a product. A well-designed, attractive package demonstrates value instead of a package that frustrates a consumer. For example, American Girl dolls are packaged in a box with a window to show the doll's face and serve as a keepsake for the owner. The packaging is so popular that some collectors purchase the package without a doll.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

How can a brand capture attention with packaging?

a. Location in store
b. Supply chain
c. Colors, fonts, and logos
d. Printing the price on the package

2.

Which of the following functional benefits of packaging is at play when the package becomes a part of the product?

a. Storage
b. Convenience
c. Safety
d. Usability

3.

Which of the following functional benefits of packaging is at play when the package protects the customer from personal harm?

a. Storage
b. Convenience
c. Safety
d. Usability

4.

Maria purchased a Louis Vuitton purse for her mom because of the dust cover that protects the purse from wear and tear. This is an example of packaging used as a marketing tool for _____.

a. brand differentiation
b. creating customer experience
c. displaying value
d. encouraging people to purchase

5.

The brand team at a technology company created product packaging that was enjoyable to unbox. This is an example of packaging used as a marketing tool for _____.

a. brand differentiation
b. creating customer experience
c. displaying value
d. encouraging people to purchase

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9.9: Environmental Concerns Regarding Packaging

Learning Objectives

By the end of this section, you will be able to

- Describe environmental concerns with respect to product packaging.
- Discuss strategies that are being used to address environmental concerns.

Environmental Concerns in Product Packaging

Consumers are increasingly concerned about the environmental impact of packaging and its contribution to waste. A study by McKinsey indicates that more than half of US consumers are highly concerned about the impact of product packaging. While it is not a top criterion for purchase, product packaging is a consideration among consumers. Furthermore, consumers are willing to purchase products that have green packaging, such as recycled plastics and fiber-based substitutes (Feber et al., 2020).

Groceries are typically packaged in glass, cardboard, plastic, and metal cans. Single-serve plastics are a concern when used for groceries, as they cannot be recycled. Electronics and other fragile products may be packaged with cardboard and foam, which can find their way into landfills. In addition to the energy used to manufacture the product, packaging adds to the environmental burden. Discarded product packaging can be found in landfills, as street litter, and in water sources, harming the environment. Creation of product packaging depletes critical resources, such as trees, and adds to air pollution.

Link to Learning: How Much Plastic Floats in the Great Pacific Garbage Patch?

Check out this website that describes the impact of the Great Pacific Garbage Patch. Think about the impact that packaging has on the environment and what you can do to reduce your personal plastic waste.

Companies are innovating on packaging to make it sustainable. As you may see at a restaurant like Chipotle, brands are adopting more fiber-based packaging and compostable, recyclable options (see Figure 9.13).



Figure 9.13 Chipotle's commitment to the environment through sustainable packaging and reuse is a strong part of its brand. (credit: "Quesadilla Steak Burrito + Carnitas Bowl" by punctuated/flickr, CC BY 2.0)

Companies are also looking at ways to reduce packaging to just its necessary components. Boxed Water Is Better has adopted a cardboard box for its water that is 75% paper and 100% recyclable (see Figure 9.14). The packaging is free of BPA and other chemicals. The paper is ethically sourced and shipped flat to reduce the amount of space in a truck, further reducing the company's carbon footprint (Boxed Water is Better, 2021).



Figure 9.14 Boxed Water Is Better makes sustainable packaging decisions in order to be environmentally responsible. (credit: "Boxed Water, Complete with an Expiry Date. Meanwhile, There's a Drought in California" by Schill/flickr, CC BY 2.0)

Cradle-to-cradle packaging design takes the waste out of the life cycle of a package. The package is designed to be something that can be reused or 100 percent recycled. It is meant to imitate nature's processes by being regenerative. A cradle-to-cradle approach uses renewable energy and keeps parts of the biological world within the biological world. Similarly, some consumer goods flow in a technical cycle so the material resources can be generated into new products (see Figure 9.15).

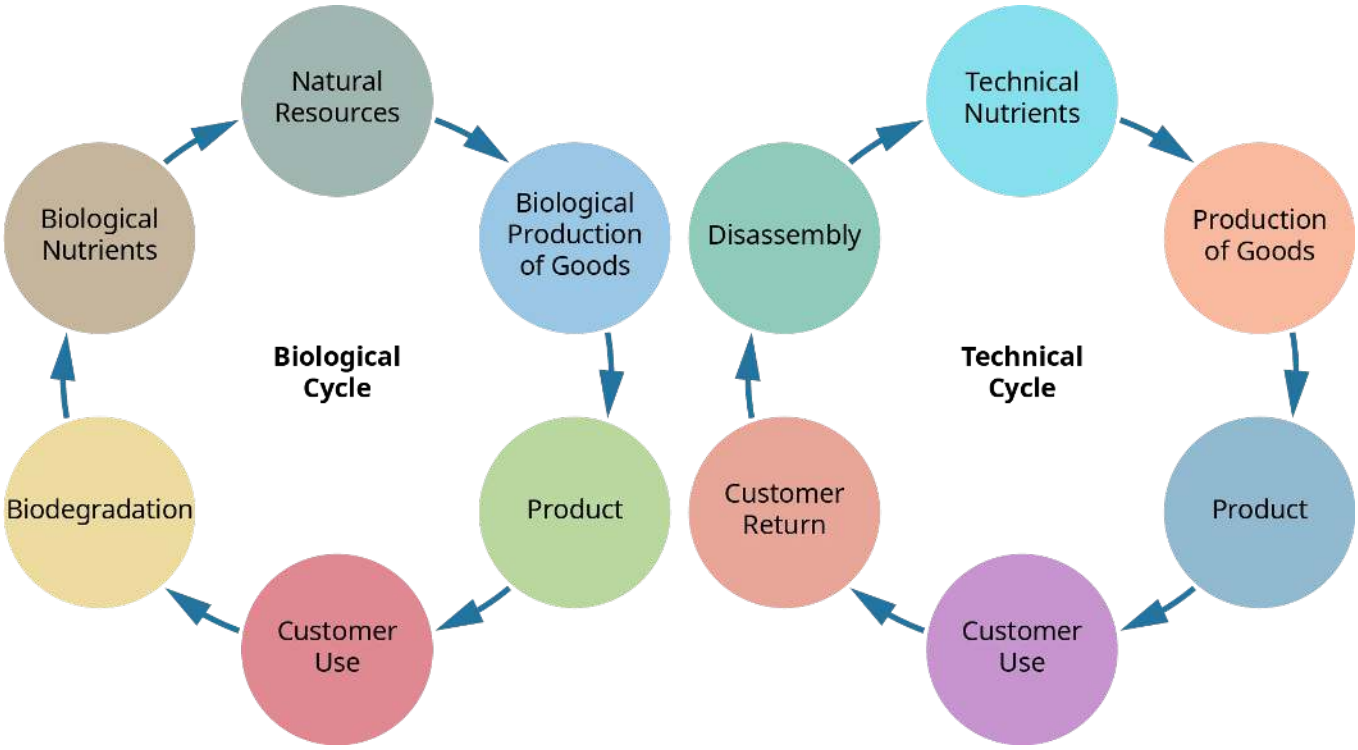


Figure 9.15 The Cradle-to-Cradle Approach (CC BY 4.0; Rice University & OpenStax)

E-commerce introduces an additional challenge: How can companies sustainably ship single products to a customer? Companies must consider protecting the item, efficiency, cost, and sustainability in their e-commerce packaging. Companies can reduce packaging and use recycled or recyclable materials in their packaging. Additionally, companies can provide return-ready packaging so packages that need to be returned to the manufacturer are the same packages that arrive with the product.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Which of the following is not a type of grocery product packaging?

a. Paper
b. Plastic
c. Metal
d. Wood

2.

Which of the following is not part of the technical cycle?

a. Product
b. Use
c. Disassembly
d. Natural resources

3.

Which of the following is a trend in sustainable packaging?

a. Increasing the amount of packaging
b. Using boxes

c. Using only necessary resources
d. Using plastic

4.

Where can discarded packaging be found?

a. Water sources
b. Landfills
c. On the ground
d. All of these are correct.

5.

Which part of the cradle-to-cradle approach is regenerative?

a. Production
b. Product
c. Use
d. Biodegradation

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9.10: Ethical Issues in Packaging

Learning Objectives

By the end of this section, you will be able to

- Explain ethical issues with respect to product packaging.
- Discuss product safety and ethical packaging trends.

The Importance of Ethics in Product Packaging

In addition to concerns about sustainability, marketing professionals must be mindful of ethical concerns regarding packaging. Remember, a consumer can see the package on the store shelf, not the product inside. The customer is seeking guidance, explanation, and assurance of a product's quality from the packaging. The package must not mislead customers about the size, quality, ingredients, or health claims. The graphics on a package must also properly represent the product inside. For example, a package might display a photo of a product that is larger or more substantial than the product inside, leading the consumer to erroneously believe that the product matches the photo.

Product packaging should be effective in protecting the product. Therefore, brands have a responsibility beyond sustainability to design packaging that ensures that the product survives transport from the manufacturer to the wholesaler, to the retailer, and finally home with the customer. Think about the last time you purchased eggs at the grocery store. The eggs are quite fragile, but they are packaged to minimize damage as the container travels from the farm to your home. It would be unethical for a brand to reduce packaging to save money and leave the consumer with a damaged product.

Additionally, product packaging informs the customer of important safety issues. For example, a package with small parts might have a warning that it is a choking hazard for children under three.

Companies must consider groups beyond their customers. Government, advocacy groups, and NGOs may influence ethical packaging. Some experts predict that ethical packaging will become a legal mandate, so brands have an incentive to think about packaging today and prepare for a more sustainable future.

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9.11: Chapter Summary - Product

Products are the consumer offering. They are the reason that the customer is making a value exchange. Products and services differ but are inextricably linked through experiences. Consumer products are classified in four ways based on consumer behavior, price, and distribution. Meanwhile, business and industrial products are classified by materials, parts, capital items, and supplies/services.

Products are often not the only offering for a company. Rather, products are sold in product lines and mixes to maximize consumer choice and profitability. Companies may stretch or fill their product lines to appeal to new customers or create new options for existing offerings. A product lives through a product life cycle, including introduction, growth, maturity, and decline, all of which consider revenue and growth. Marketing decisions are often made based on where a product is in the product life cycle. Companies may use levers such as product innovation, pricing, and promotion to encourage purchase.

Ultimately, products become part of a brand. A brand is a feeling that is evoked and a reason that consumers might make a purchase. Brand equity is an intangible asset with tangible value for a company, so it must be protected. Brands position themselves in consumers' minds to capture brand equity. Developing a brand can occur through extension or through creating a new offering. Consumers have varying degrees of brand loyalty, which can be measured through preference, lift, and engagement.

Packages are more than containers for products; they are also an extension of the brand. They are useful in brand identity, differentiation, and customer experience. Packaging and labeling also serve functional benefits such as storage, convenience, protection, safety, usability, and legality. Brands should be mindful that packaging has an environmental impact. Brands are continually innovating their packaging designs to meet sustainability expectations.

In this chapter, we explore services. One of the first concepts is that services are intangible, meaning that they cannot be felt, tasted, heard, or smelled before purchase. Customer satisfaction depends upon many factors, the first one being the communication of what can be expected by the customer and the actual customer experience. It can be considered a communication gap when customer expectations and experiences do not match. This gap is the first point in the Gap Model of Service Quality. The second point is based on the perception of service received versus customer expectations. Other issues covered in this model are service quality, knowledge, and policies.

Service goes a long way in building customer satisfaction and loyalty; without returning customers, a business will struggle and fail.

Employees are responsible for a sizable amount of what goes into satisfaction at the customer level. One of the key points is employee satisfaction and retention. A more engaged, happier employee delivers a higher level of customer service. This is an additional point that employers are measuring. The act of internal service marketing is a concept that many have not experienced. This covers the activities that the company engages in to keep employees involved in delivering the desired level of service.

External service marketing is the act of promoting or selling services to the customer. This is a well-known concept both inside and outside the company.

Services can be further examined by understanding the following concepts: Services are inseparable; they are produced and consumed simultaneously. They are intangible, meaning they cannot be touched, felt, heard, tasted, or smelled before purchase. They are perishable, so they cannot be stored in inventory for future use or sale. They are variable, meaning that the service depends on who provides them and when, where, and how. These concepts help to explain the complexities of marketing services and satisfying the consumer.

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SECTION OVERVIEW

9.12: Services- The Intangible Product

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9.13: In the Spotlight - Services

Services are acts that a consumer is willing to pay for, and there are hundreds of different types. One such service is daycare. According to the U.S. Chamber of Commerce, 88% of two-parent families and 83% of single-parent families relied on non-parental care before the COVID-19 pandemic and spent approximately $42 million on early care and education (Forstadt, 2021).



Figure 11.1 Services are intangible, nonphysical products, such as childcare, and they make up the majority of the US GDP. (credit: "DSC_1551" by Josh Ward/flickr, CC BY 2.0)

Sara Bullock, who has a background in early childhood education and four children of her own, owned a childcare business in Maryland for more than 10 years. When her husband was required to move to Tennessee for his job, she closed her business and started a new childcare business using a different business model. She changed it from a conventional daycare center to a "drop-in" center, allowing parents to bring in their children for short periods (anywhere from one to seven hours) without requiring them to make a monthly commitment. That was the birth of MeTime Drop-In Child Care. The concept has been so successful that Bullock has already begun plans to open a second location (Pathway Lending, 2023).

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9.14: Classification of Services

Learning Objectives

By the end of this section, you will be able to

- Define services.
- List the classification of services.
- Describe the characteristics of services.

Services Defined

You may have heard that the U.S. economy is primarily considered a service economy. But do you know why this is? Figure 9.11.2 provides the answer. It outlines the percentage each industry contributed to the gross domestic product (GDP) in 2020. (A quick refresher from your economics course: GDP measures the total monetary value of all finished goods and services generated within a country's borders during a specified period.) Which industries are the largest contributors to the GDP? Service industries. (Note that this figure does not include smaller industries such as utilities or mining and agriculture.) When you total the service industries, they make up a whopping 67% of GDP versus only 10.8% for manufacturing.

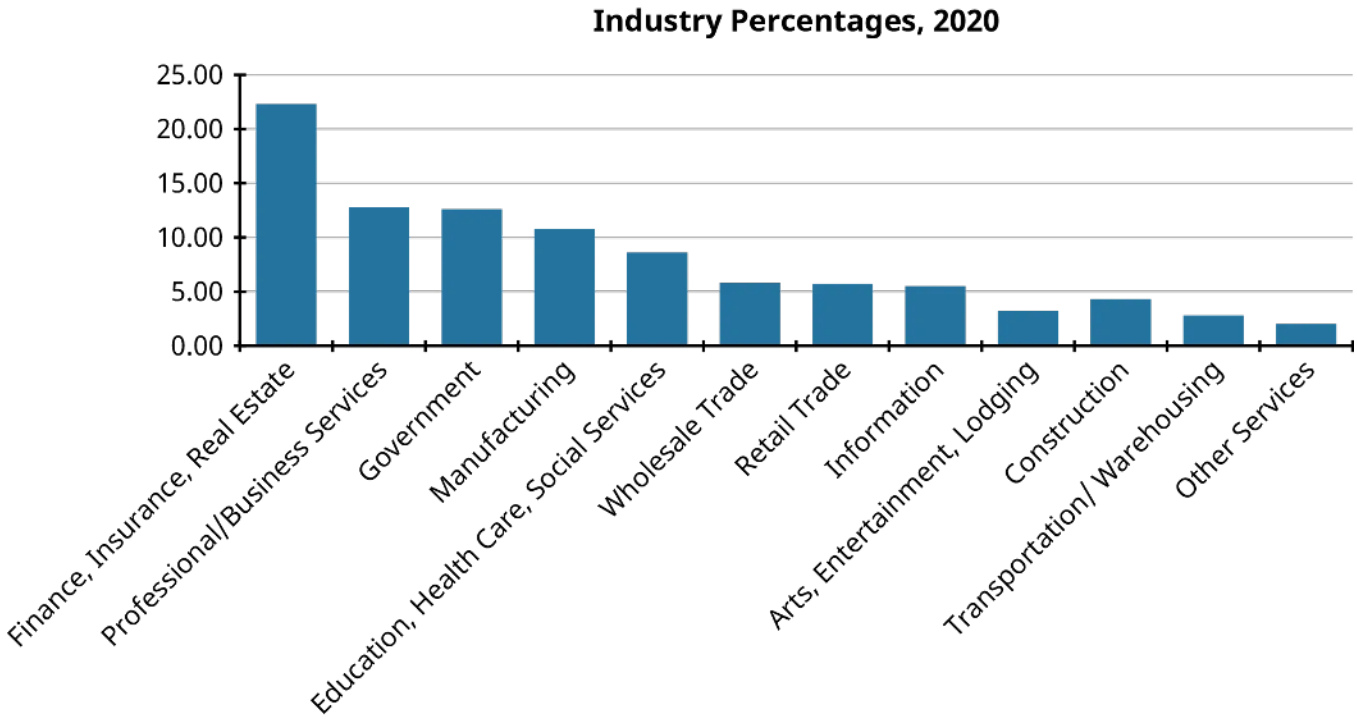


Figure 9.11.2 Percentages Added by Industry to the US GDP in 2020 (data source: BEA; US Department of Commerce; attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

In a nutshell, services are the nonphysical, intangible economic activities. On the other hand, physical goods are the things we can touch or handle, commonly called tangibles. Do you realize that, as you read this textbook, you're participating in the services sector of the economy? That's because education is considered part of the service sector. The service sector also includes banking, medical treatment, transportation, insurance, and many more categories. Based on the fact that the majority of contributions to the GDP in the United States are services, and more than half of the country's workforce is employed in producing "intangibles," it's critical to understand this important sector from a marketing perspective.

Consider the challenges to marketers when selling services as opposed to products. A consumer can't touch or see the service before purchasing, so examining or evaluating benefits is difficult. Think about it: you can't take a service out for a test drive the way you might if you were buying a new car. Yet, it's just as crucial for organizations that provide services to build brand awareness and loyalty.

Classification of Services

Services are classified as people-based services or equipment-based services. And within those classifications, there are subcategories (see Figure 9.11.3).

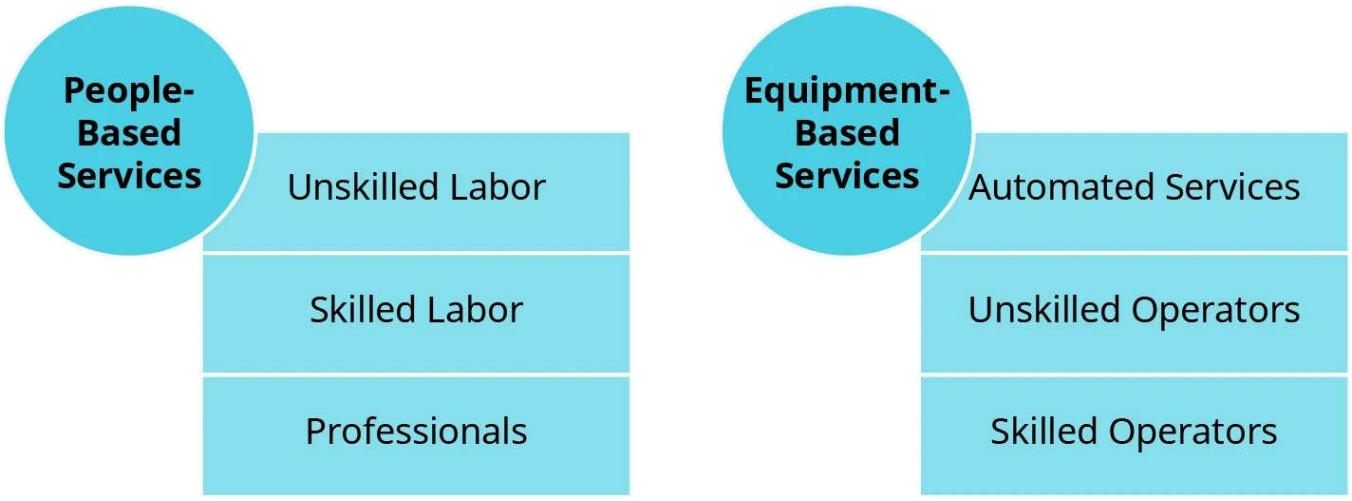


Figure 9.11.3 Services Classifications (CC BY 4.0; Rice University & OpenStax)

People-Based Services

People-based services are those where people primarily deliver the service rather than equipment or machinery (see Figure 9.11.4 for examples). It's the individuals delivering the service, and the knowledge and skills that they possess, that add value and allow the service to be performed. People-based services can be broken down further into these subcategories:

- services provided by unskilled labor: parking lot attendants, babysitters, and janitors
- services provided by skilled labor: plumbers, caterers, and hairstylists
- services provided by professionals: doctors, attorneys, college professors, and accountants

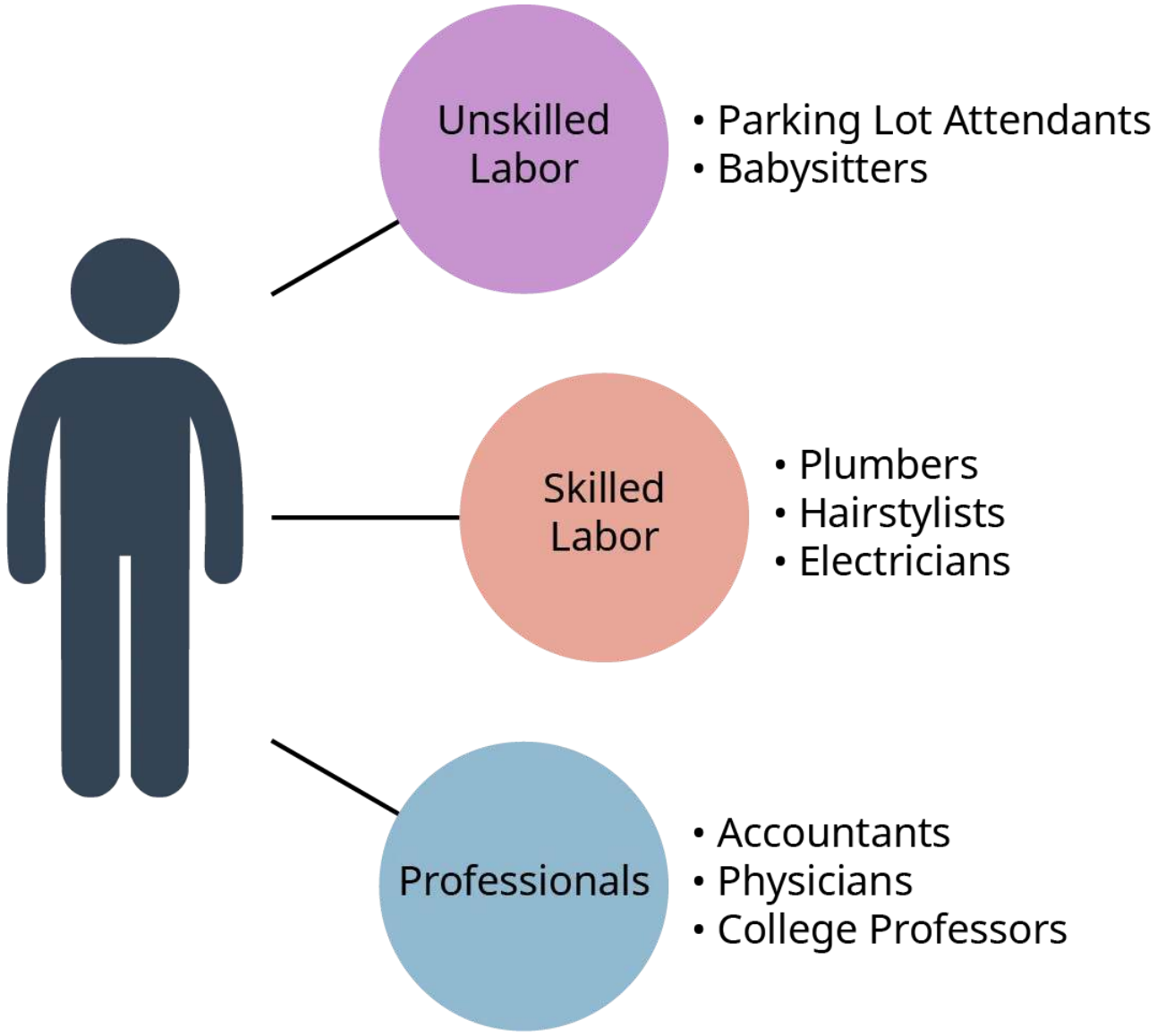


Figure 9.11.4 People-Based Services (CC BY 4.0; Rice University & OpenStax)

Equipment-Based Services

Equipment-based service firms utilize equipment, machinery, and other forms of technology to perform service tasks (see Figure 9.11.5). Like people-based services, equipment-based services can be further broken down into subcategories:

- automated services: car washes and parking meters
- equipment-based services operated by relatively unskilled operators: dry-cleaning equipment
- equipment-based services operated by skilled operators: X-ray machines and ultrasound equipment

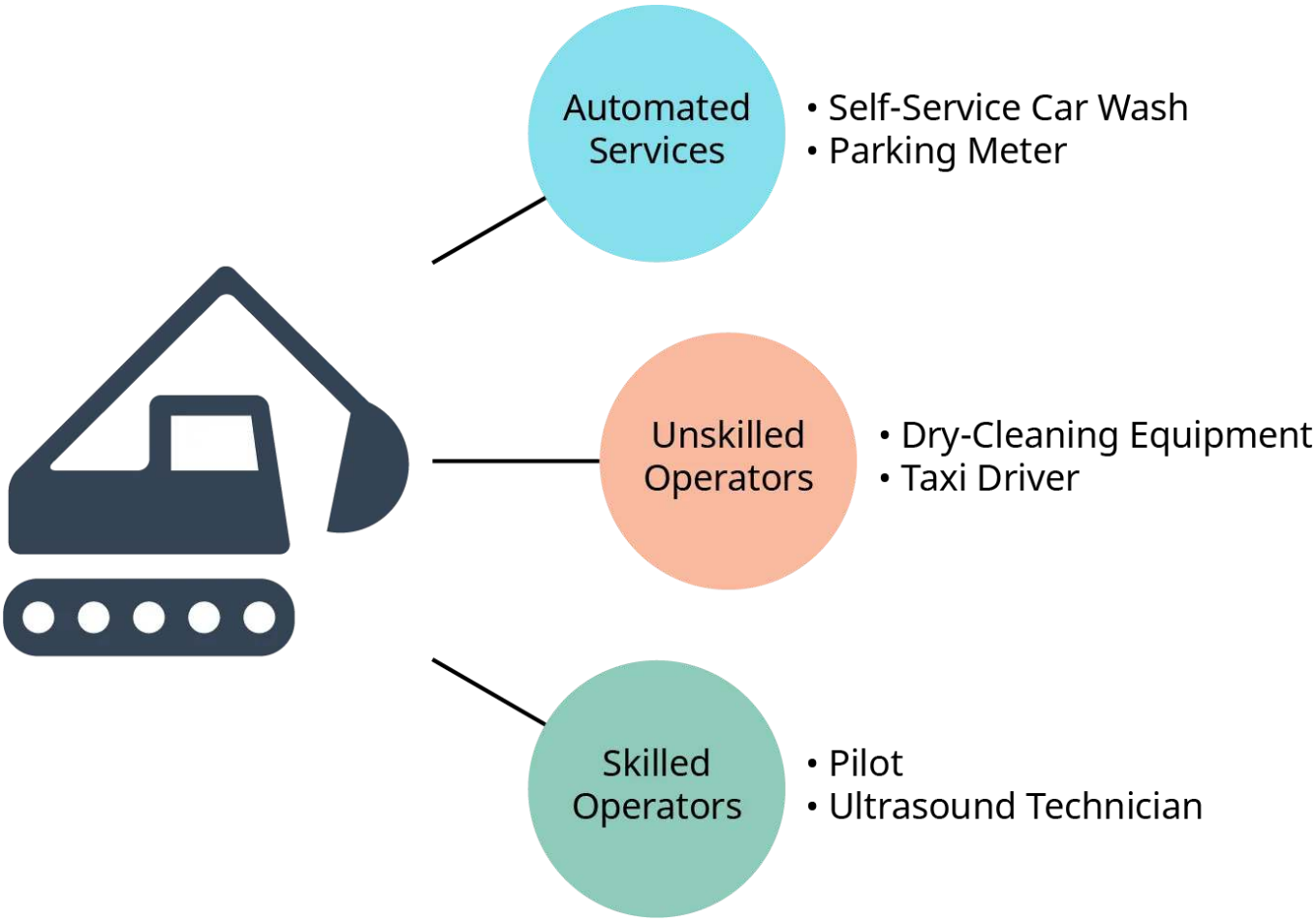


Figure 9.11.5 Equipment-Based Services (CC BY 4.0; Rice University & OpenStax)

There is another way to categorize services, according to well-known author and professor Christopher Lovelock (1940–2008). He proposed four broad categories of services:

- people processing: services toward people's bodies
- possession processing: services toward possessions
- mental stimulus processing: services toward people's mind
- information processing: services toward intangible assets (Saxena, 2015).

In Figure 9.11.6, the categories are defined on a two-dimensional matrix, wherein one of the dimensions is the direct recipient of the service, and the other is the nature of the service act (Panchal, 2014).

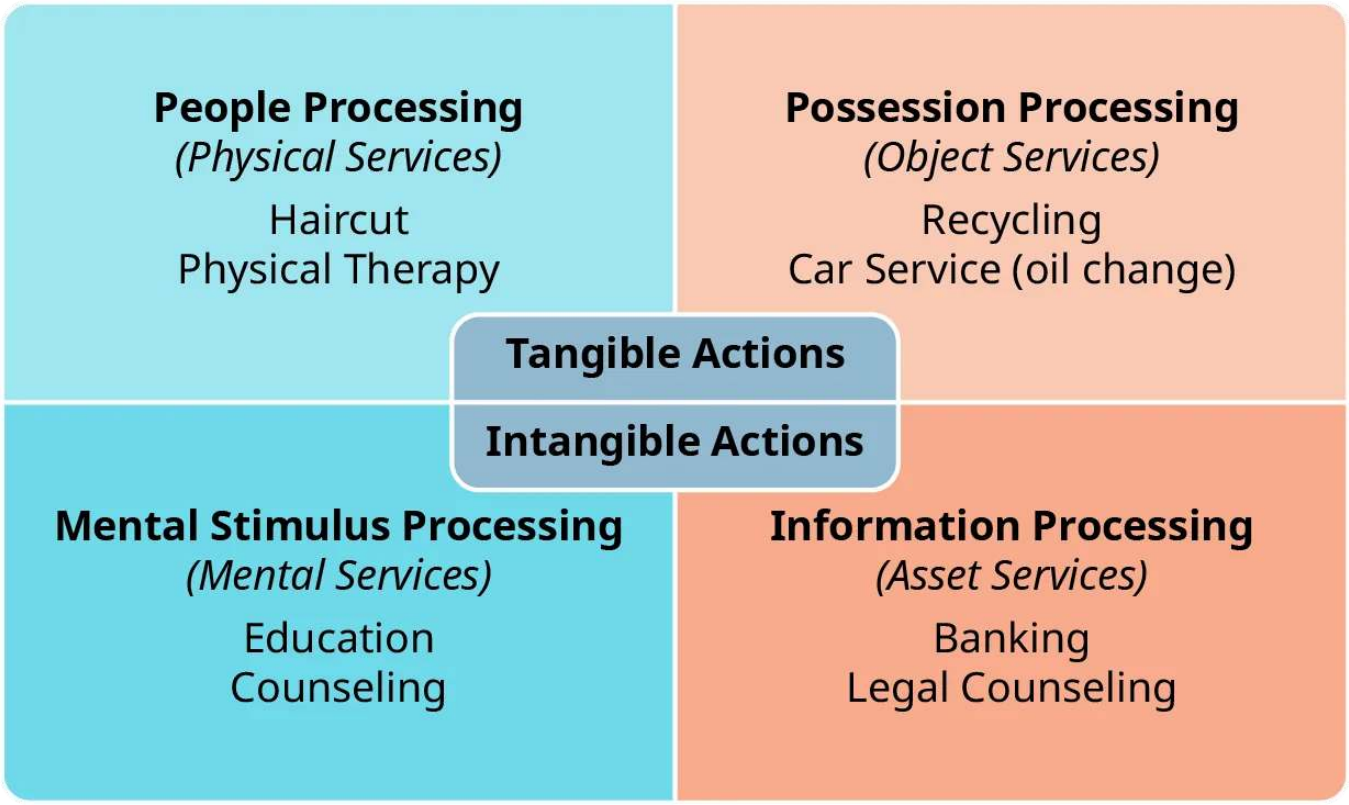


Figure 9.11.6 Lovelock's Categories of Service (CC BY 4.0; Rice University & OpenStax)

Link to Learning: Lovelock

If you plan to continue toward a marketing degree, you'll want to familiarize yourself with Christopher Lovelock's work. You can run a search on Amazon.com for his books or a search in your browser for articles and more information. Start by reading his Wikipedia page to learn about his academic background and achievements.

Let's look at each of these categories in more depth. The first two categories (people processing and possession processing) involve tangible actions directed toward a person's physical body or property, whereas mental stimulus processing and information processing involve intangible actions directed toward a person's mind or information. We'll expand on this in the following sections.

People Processing

In people processing services, the customer is a direct recipient of the service, and the production and consumption of the service are simultaneous. Consider examples of services where you must be present in the service facility to interact with the service provider and receive the service, such as barbershops or hair salons, physical therapists' offices, or restaurants.

Possession Processing

The difference between people processing and possession processing is that the service is directed toward the customer's physical possessions. In other words, production and consumption are separate. Your only involvement is dropping off the item that requires service or repair and explaining the problem. For example, once you have taken your car in for an oil change, you do not need to be physically at the location for the oil change to occur. Similarly, once you've dropped your clothes off at the dry cleaners, you don't need to be physically present during the cleaning process. These services are tangible because the direct recipient is not you but one of your possessions.

Mental Stimulus Processing

In its simplest explanation, mental stimulus processing is when the services interact with your mind rather than your body. Time and mental effort are required from the customer to receive this type of service. What you're doing right now—reading this textbook—is a prime example of mental stimulus processing. Other examples include psychotherapy or counseling services. The key here is that services rendered in this category are intangible.

Information Processing

Information processing is the most intangible form of service, although it can be transformed into a tangible service output like reports, books, letters, DVDs, etc. An example of information processing services would be meeting with your financial advisor regarding investment advice, legal services, and banking (Panchal, 2014).

Link to Learning: Service Industry Stats and a Changing Industry

If you'd like more insight into service industries, check out the U.S. Bureau of Labor Statistics website. It categorizes industries and provides interesting statistics on employment.

Companies are launching new services every day. Think about it—services like Uber didn't exist 20 years ago. As a marketer, understanding services and their business models is critical. Start here and read about on-demand service companies and how services—and apps—are changing the industry. Also, check out this article about the top 15 service businesses for 2022.

Characteristics of Services

As outlined in Figure 9.11.2, service industries contribute the major percentage of the US GDP. It's important to understand that this shift from the manufacturing sector to the service sector isn't limited to the United States. Increasingly, the world economy is being characterized as a service economy. Looking at economic history, we can see a natural evolution in developing countries from the agricultural industry to the service sector as the mainstay of the economy. That's why marketers must understand the characteristics of services.

As we pointed out above, some services come from physical products, such as getting a haircut or having your income tax return prepared by a professional. But other services are completely intangible. When you rent a hotel room, travel on an airplane, visit your doctor, attend a professional sporting event, or get advice from a lawyer or an accountant, you're buying a service, so a marketer needs to consider the characteristics of services to get the right marketing messages to the right target market (see Figure 9.11.7).

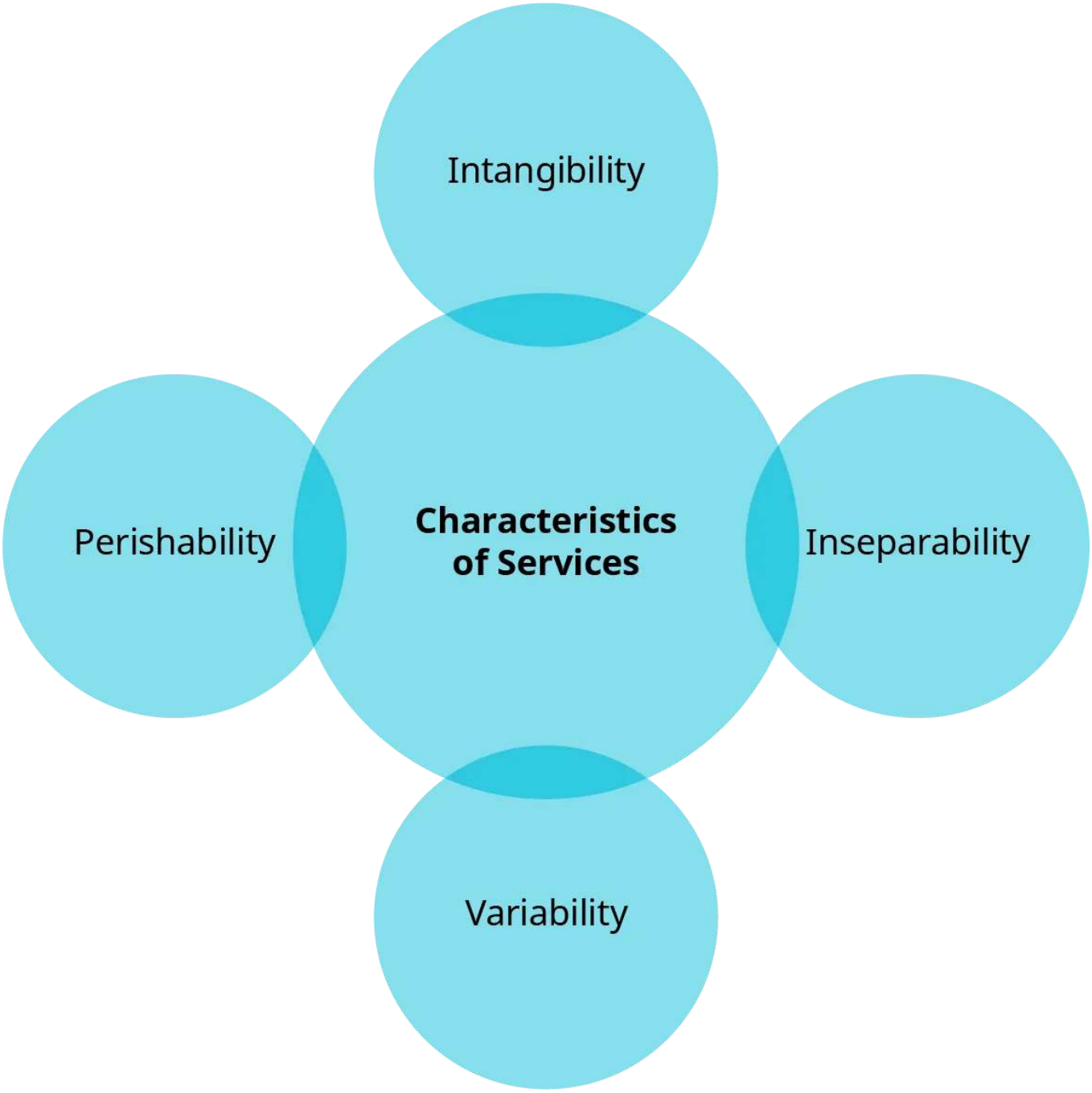


Figure 9.11.7 Characteristics of Services (CC BY 4.0; Rice University & OpenStax)

Service Intangibility

By their very nature, services are intangible. This means they can't be seen, tasted, felt, smelled, or heard before they are purchased. Consider the last time you purchased automobile insurance for your car. Other than the physical policy the company sends you (the only tangible asset), what you've paid for is completely intangible—it's the company's promise to pay claims against the policy.

Intangible services have a number of implications in marketing. The very fact that there's nothing to touch, hear, smell, and so on typically increases the level of uncertainty that a consumer faces when choosing between services offered by your organization or those of competitors. Intangible services can seldom be tried out, inspected, or even given a "test drive" by a customer. Customers have to rely on the word of the marketers to assess what they're actually going to get in return for what they've paid. In effect, they are buying a promise.

Savvy marketers reduce this uncertainty by creating physical “evidence” that allows the consumer to picture the service before it is purchased. For example, a hair salon may have imaging software that predicts how you would look with different hairstyles or colors. Companies like Zenni and Eyebuydirect have a virtual mirror that allows you to “try on eyeglasses” and see how the selected frames look on your face before you purchase (Jake, 2024).

Service Inseparability

The order of production and consumption between a physical product and a service differs. Think about a box of Girl Scout cookies, a physical good or product. The cookies were produced, stored, sold, and finally consumed. That’s not the way it works with services. Like goods, services are sold, but they are produced and consumed simultaneously. They can’t be separated from the service providers, whether people or equipment (Muntasir, 2024). For example, try to get money out of your bank on a weekend or evening without an ATM or get a haircut without the physical presence of your stylist. That’s the concept of service inseparability —you can’t separate the delivery of the service from the presence of the customer. In other words, the service provider is physically connected to the service and is evaluated based on their communication skills, language, demeanor, personal hygiene, and clothing.

The impact to the marketer in these services—in which the service provider and customer must both be present—is how service providers (sometimes called frontline employees) conduct themselves in the customer's presence because it may determine the likelihood of repeat business (Muntasir, 2024). There are also other marketing implications with this concept, such as customer cooperation and participation, not to mention the influence from other customers who may be present.

Service Variability

Have you ever gone to a restaurant and had stellar customer service? You were seated promptly by a cheerful hostess; the busser filled up your water glass and refilled it several times during the evening; the waitstaff was attentive but not annoying; and your dirty dishes were cleared promptly. But perhaps the next time you visit the same restaurant, your experience isn’t quite as amazing. The hostess isn’t as cheerful, and it takes her several minutes to seat you. It takes a while for someone to refill your water glass. The waitstaff isn’t nearly as attentive as they were during your first visit. What went wrong?

Perhaps what you’ve experienced is what’s known as service variability—the quality of the service depends on who provides it, when it is provided, and how it is provided. For example, Delta Air Lines prides itself on improving peoples’ lives and exceeding customer expectations (Mission Statement Academy, 2024). However, because services are provided by humans who have human experiences where they may not be feeling well or are having a bad day, the service may vary between employees. One Delta employee may be cheerful and efficient, whereas another lags due to their energy and state of mind.

This is a challenge to marketers because products generally have little variability: each unit is built to certain specifications. For example, if you buy an Apple iPad Pro and your classmate purchases the same model, the two iPads will likely be virtually identical. The case color may be different, but otherwise, they are the same. That’s not the case with a service, where there will undoubtedly be variations in the quality of the service depending on who offers the service, when it is offered, and at which location. Service-based companies need to rely on standardizing processes to the extent possible, frequent audits, customer surveys, and most importantly, customer feedback.

Service Perishability

Unlike most goods, services can’t be produced and stored for later use or sale. Services are, in effect, performances by the service provider. That’s the concept of service perishability. Did you miss tonight’s concert because of traffic? Too bad, because a ticket for tonight’s concert can’t be used for tomorrow night’s performance. Hotel rooms that are not occupied, airline seats that are not purchased, and unused gym memberships cannot be reclaimed (Muntasir, 2024). Because these items can’t be stored for later use, they are considered a perishable service. This is particularly important for marketers because the perishability factor and the fluctuating demand pose special problems in capacity planning, scheduling, product planning, and pricing (Rao, 2007).

One way that marketers deal with this problem is by manipulating demand. Consider how many restaurants offer “happy hours” with discounted food and drinks during the late afternoon or early evening. Restaurants do this because this is typically the period where there is a lull before the start of the dinner rush.

Careers In Marketing: Salaries

You might be curious about the salaries of marketing jobs. Numerous online resources provide guides, but the best step to take is to check out popular sites like Monster, Indeed, and LinkedIn to view current job positions. They may not all include the salary, but most will include salary ranges. The following is a list of a few resources to get you started.

- Monster: "High-Paying Marketing Jobs"
- Acadium: "How Much Do Marketers Make? Marketing Job Salaries in 2022"
- All Business Schools: "Marketing Manager Salaries and Job Outlook"
- Indeed: "Entry Level Marketing Salary in United States"

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

You purchased an airline ticket to go on vacation, but on the way to the airport, you get a flat tire and miss your flight. Which characteristic of service does this example illustrate?

a. Service variability
b. Service inseparability
c. Service perishability
d. Service intangibility

2.

You go to a new hairstylist, and he suggests that you add highlights to your hair, cut off a few inches, and add some layers. You're hesitant to do so because you can't imagine what you'll look like with your new hairstyle. What characteristic of service does this example illustrate?

a. Service intangibility
b. Service variability
c. Service perishability
d. Service inseparability

3.

You go to the spa to get a massage, but your regular massage therapist is off for the day. The massage therapist to whom you're assigned does an adequate job, but they don't have the same technique as your regular massage therapist. What characteristic of service does this example illustrate?

a. Service inseparability
b. Service perishability
c. Service variability
d. Service intangibility

4.

You go to your Certified Public Accountant (CPA) to have your tax return prepared and filed for the year. How would this service be characterized in terms of classifications of services?

a. People-based services: unskilled labor
b. Equipment-based services: unskilled operator
c. People-based services: professionals
d. Equipment-based services: skilled operator

5.

You’re headed to lunch with friends at a downtown restaurant. Because there is no restaurant parking lot, you must park on the street and feed the parking meter or risk getting a parking ticket. How would the service provided to you by the parking meter be classified?

a. Equipment-based services: unskilled operator
b. People-based services: professionals
c. People-based services: skilled labor
d. Equipment-based services: automated service

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9.15: The Service-Profit Chain Model and the Service Marketing Triangle

Learning Objectives

By the end of this section, you will be able to

- Define and explain the purpose of the service-profit chain model.
- Describe the steps in the service-profit chain model.
- Explain the Services Marketing Triangle.

Definition and Purpose of the Service-Profit Chain Model

Just like goods-producing businesses, service firms use marketing to position themselves in selected markets. These businesses position themselves in the market through marketing mix activities (i.e., product, price, place, and promotion). However, different marketing approaches may be required because of the inherent differences between services and tangible products. Consider a product like a laptop or smartphone. The products are fairly standardized, so they can be produced and shipped to retailers and then sit on shelves in the store until purchased by a consumer. However, if you're a service business, it takes the interaction of the frontline employee and the customer to literally create the service. The interaction between the employee and customer is important in creating the value of that service.

The service-profit chain model, created by a group of Harvard researchers in the 1990s, establishes relationships between profitability, employee satisfaction, loyalty, and productivity. The concept is reasonably simple: happy workers make happy customers who keep coming back and telling their friends. The model itself is a little more complicated and states the following:

- Internal service quality (the support received by frontline employees from the rest of the organization) leads to employee satisfaction.
- Employee satisfaction results in loyalty, productivity, and the willingness to go that "extra mile" for the customer, creating value.
- Value contributes to customer satisfaction, resulting in customer loyalty.
- Customer loyalty translates to profitability and growth for the organization.

Perhaps the most critical aspect of this model is that all of these points link together, are equally important, and depend on one another. There are no shortcuts to increasing profitability. Didn't quite follow that? Refer to Figure 9.11.8 for a visual depiction.

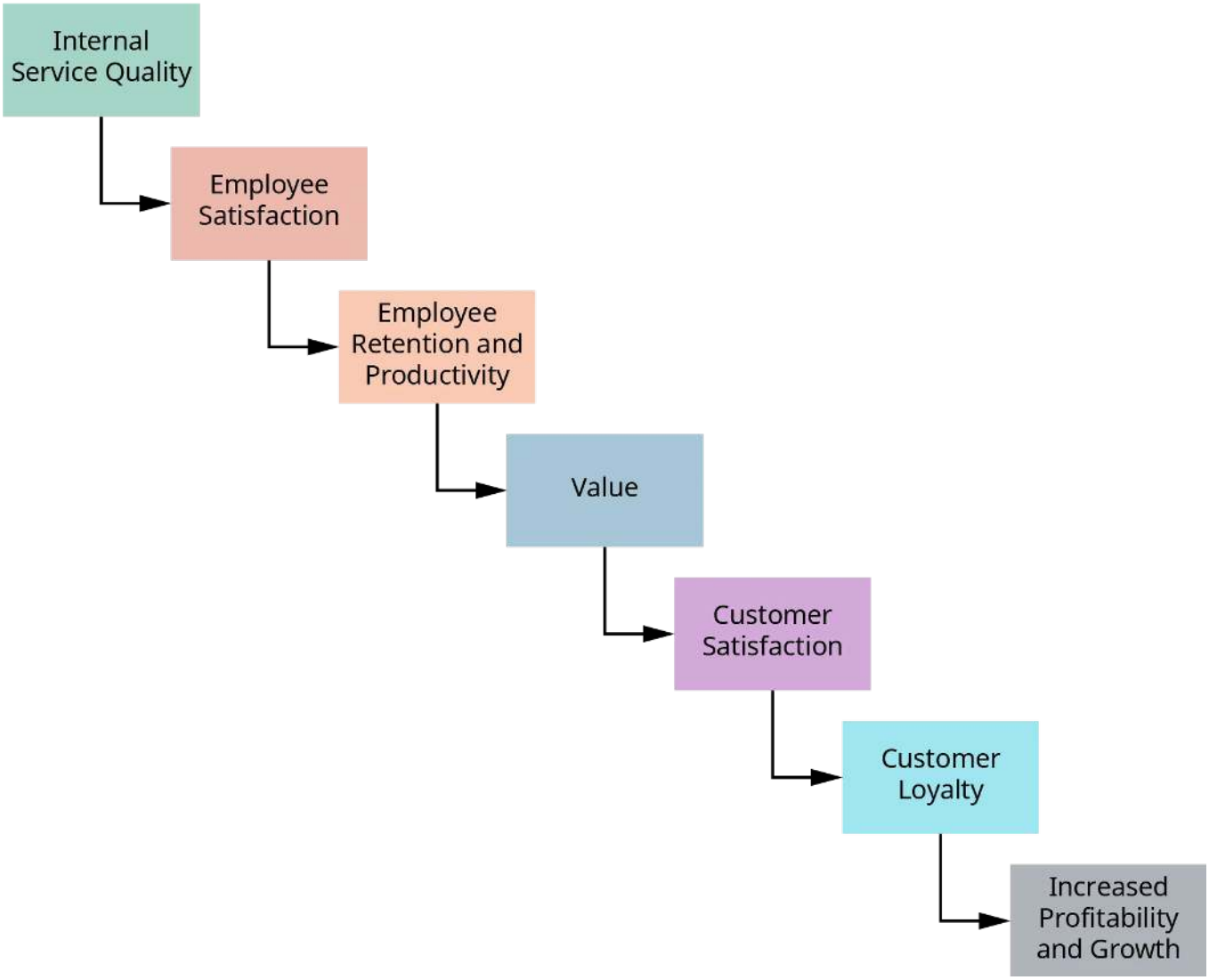


Figure 9.11.8 The Service-Profit Chain Model (CC BY 4.0; Rice University & OpenStax)

Steps in the Service-Profit Chain Model

The service-profit chain model connects the relationships between the different parts of a business. It impacts employee satisfaction and retention, customer satisfaction and loyalty, and profitability. Let's take a closer look.

Internal Service Quality

Internal service quality refers to the perceived satisfaction frontline employees experience when they are supported by effective policies and service from the organization. If you've ever worked in a restaurant, you'll be familiar with the terms "back of house" and "front of house." Front-of-house employees are "guest-facing" roles like hosts/hostesses and servers—those who intentionally interact with the customer. Back-of-house employees like bussers, dishwashers, and cooks typically don't directly interact with the customer. Rather, it's their work that supports the front-of-house employees. Even if your server may is friendly, attentive, and efficient, if your silverware is dirty or your steak isn't prepared as ordered, the overall dining experience is going to be less than optimal. In addition to customer dissatisfaction, server/employee satisfaction will also suffer due to the lack of support from the back-of-house staff.

Consider another example. Your flight was delayed, and it took forever to get your luggage and rental car. By the time you get to your hotel, you're tired and cranky and just want to check in and get some rest. The front desk clerk is cordial and efficient. However, your room isn't available because the housekeeping staff hasn't cleaned the room yet. Who gets the brunt of your anger?

Imagine the lack of job satisfaction on the part of the front desk clerk who's tried to do everything right and was thwarted by the lack of support from housekeeping.

One of the ways that this problem can be alleviated within an organization is to create an employee feedback loop in which frontline employees can communicate problems that hurt productivity, satisfaction, and loyalty. The feedback loop is a critical element because, as consultant Sidney Yoshida reports in his study "The Iceberg of Ignorance," 4% of an organization's frontline problems are known by top management, 9% are known by middle management, 74% are known by supervisors, and 100% are known by employees (Ryder, 2019).

Employee Satisfaction

Employee satisfaction is the level of happiness or contentment employees have with their jobs and work environment. It's often the direct result of company policies and support services that empower employees to deliver quality products and services. If employees are satisfied with the company's policies, it's easier to facilitate a happy attitude that helps consumers have pleasurable experiences with the organization.

For several years, Zappos has made Fortune's list of "100 Best Companies to Work For." The late CEO Tony Hsieh focused so much on the happiness of his team and customers that he wrote a series of books about it, including *Delivering Happiness: A Path to Profits, Passion, and Purpose*. He recognized that the only person-to-person contact a customer would have with an online retailer would be with customer service personnel, so he encouraged his employees to go above and beyond for the customer (Schmidt, 2016).

Employee Retention and Productivity

Employee turnover is one of the most frustrating and recurring problems that organizations face. Turnover is costly whether it's involuntary (such as termination due to poor performance) or voluntary (such as employee-decided resignation or retirement). The conservative estimate from the Society of Human Resource Management (SHRM) is that it costs six to nine months of an employee's annual salary to replace that person (Enrich, 2016). That's why employee retention—keeping employees motivated so that they choose to remain with the company—is so critical.

The good news is that employee satisfaction is inversely related to employee turnover. In other words, an increase in employee satisfaction brings about a decrease in employee turnover. Perhaps even more importantly, studies have shown that low turnover leads to an increase in organizational productivity (the efficiency and output of employees) and performance. For example, some time ago, Taco Bell discovered that its restaurants with high employee retention had twice as many sales as other stores and had 55 percent higher profits than restaurants with high turnover. In response to these findings, the company enhanced its internal service quality by giving employees more latitude for on-the-job decision-making (Anigbogu, 2018).

Link to Learning: The Great Resignation

You may be aware of the Great Resignation, in which employees are leaving their jobs in large numbers. Because of the cost of hiring, training, and retaining employees, employee retention is a major concern for organizations. There are many reasons why this is happening, and there are ways companies can improve to help them retain their employees. Read these articles from the Pew Research Center, Forbes, and Mashable about this shift in employee thinking.

There are corporate strategies companies can take to counteract this resignation trend. Learn about these strategies from LinkedIn.

External Service Value Proposition

Customer value is also known as external value proposition. It's the promise of value that a customer expects a business to deliver (Coleman, 2024).

Think about your last haircut. Why did you choose to get your hair cut at that particular salon versus a competitor? Certainly, the quality of the haircut itself was important, but the customer value you experienced from your stylist played a role. What else factored into your experience? How about the other behind-the-scenes employees who made it easy for you to book an appointment or who checked you in efficiently, the person who kept the salon clean and attractive, and the person who made it easy for you to pay and perhaps book another appointment when you were leaving?

That’s why employees (both frontline and behind the scenes) play a major role in ensuring customer value. Satisfied, motivated employees generally (and genuinely) care about the company and the services it provides and can convey this to consumers in an honest, positive manner (Mulder, 2024).

Customer Satisfaction

The next two steps (customer satisfaction and customer loyalty) in the service-profit chain model are related and directly linked. A dissatisfied customer will not be loyal and will likely not do business with the company in the future. Conversely, customer loyalty —the ongoing positive relationship between a customer and business—results from customer satisfaction—or the measure of how happy customers are with the company’s products, services, and capabilities.

The greater the satisfaction from a customer, the more likely they will return. Additionally, satisfied customers often serve as unofficial “ambassadors” of the company and will spread the word about their positive experiences (Mulder, 2024).

Customer Loyalty

The definition of customer loyalty is when a person goes to the same company for subsequent services, even if that service is more expensive than that of the competitor. The customer makes a deliberate choice to do repeat business with a company with which they have had positive experiences, resulting in growth and higher profits for the company (Mulder, 2024).

Profit and Growth

In the service-profit chain model, profit isn’t the goal; it’s the result. The formula is quite simple:

- Happy employees result in happy customers.
- Happy customers mean repeat business and spreading the word about your organization.
- Repeat (and new) business means profit and growth for the organization.

The key is to keep employees happy because it leads to company profits.

Link to Learning: Putting the Service-Profit Chain to Work

Learn from this *Harvard Business Review* article about the connectivity of the service-profit chain links.

Interested in understanding how the model works in other industries? Read this *Hospitality News and Business* article about why the service profit chain is important in the hospitality industry.

Marketing in Practice: Ritz-Carlton



Figure 11.9 The Ritz-Carlton Hotel directly impacts its service-profit model by empowering its employees to provide a positive experience for customers. (credit: “Cannes” by Fred Romero/flickr, CC BY 2.0)

Employee empowerment is one of those buzzwords that has become popular over the last few decades. It’s defined as the ways in which an organization provides its employees with some autonomy and freedom to make decisions and have some control in their day-to-day activities. For example, a supermarket may empower its cashiers to match competitors’ ads without approval from a manager for up to a certain dollar amount.

If you were a business owner, how much latitude would you give your employees in helping customers? A lot? A little? None? The Ritz-Carlton, considered a gold standard for hospitality (see Figure 11.9), allows its employees to spend up to $2,000 to solve customer problems without manager approval (Toporek, 2017).

You might be shaking your head right now, trying to understand this. Two thousand dollars seems like a lot of money to be left to employee discretion, doesn’t it? But you may not realize that the average Ritz-Carlton customer will spend approximately a quarter of a million dollars with the hotel chain over their lifetime. When you consider that the customer lifetime value (CLV) of a Ritz-Carlton guest is $250,000, that $2,000 doesn’t seem hard to believe, does it (Toporek, 2017)?

For more information about Ritz-Carlton and its commitment to customer service, watch this brief video with Ritz-Carlton founder Horst Schulze and Yahoo! Finance where he discusses the importance of and value in caring for customers.



The Service Marketing Triangle

The Service Marketing Triangle is a visual image of a model that speaks to the importance of people in a company's ability to keep its service promises (see Figure 9.11.10). It might help to imagine the Service Marketing Triangle as a three-legged stool. Take out one of the legs, and the stool won't stand for long. That's the premise and the importance of the Service Marketing Triangle—all three aspects must be achieved or exceeded for the customer to be delighted.

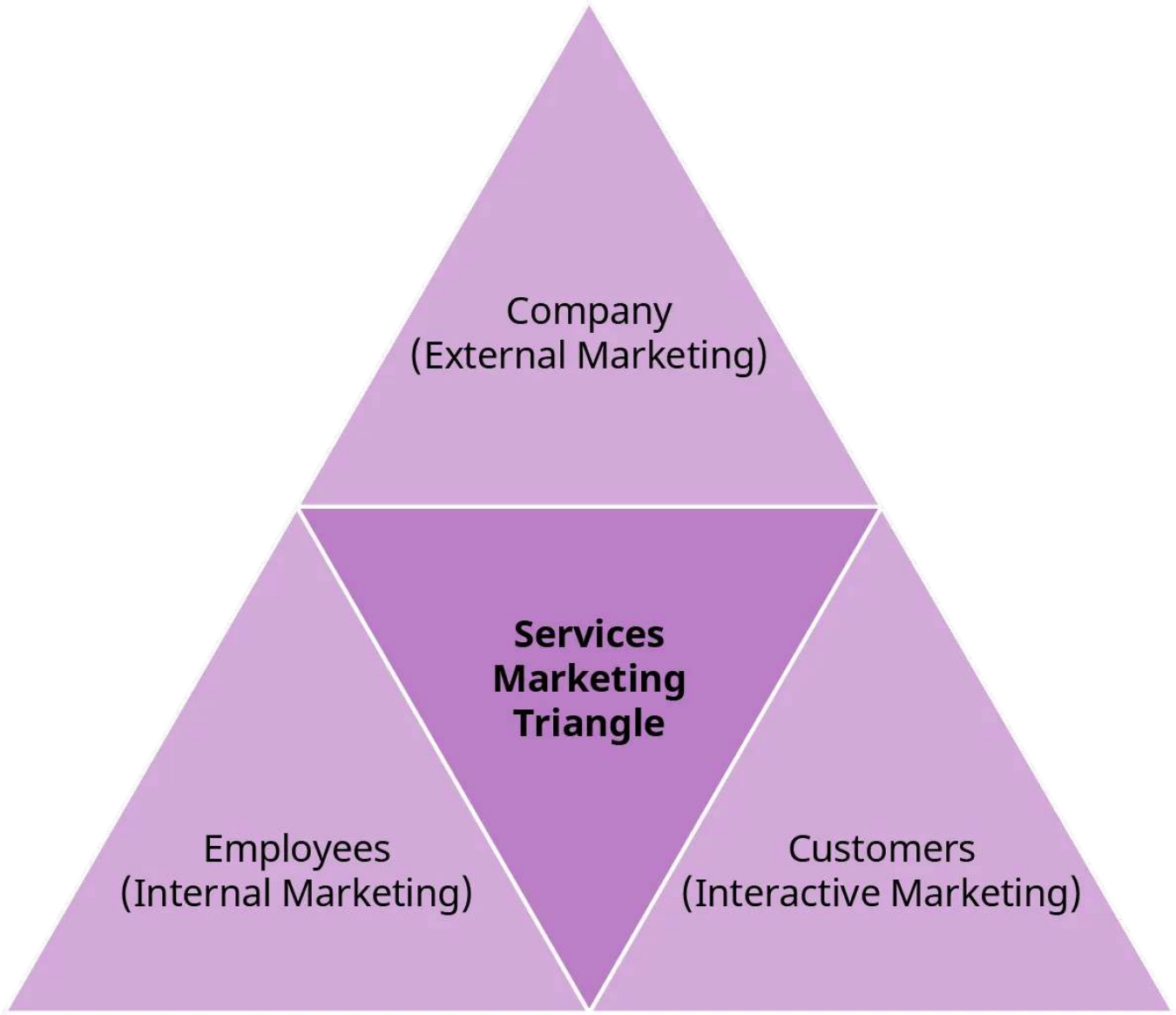


Figure 9.11.10 The Services Marketing Triangle (CC BY 4.0; Rice University & OpenStax)

External Service Marketing—Making Promises

External service marketing refers to the promotion of an organization's services in an external environment where the company promotes its services to customers through various traditional techniques like pricing, advertising, direct marketing, public relations, and personal selling. These marketing techniques are intended to achieve multiple aims, such as creating and increasing awareness, setting price expectations, and setting expectations for the level of service to be delivered (Minute Tools Content Team, 2018).

Internal Service Marketing—Enabling Promises

In a service business, employees are seen as "internal customers." As you've seen from the discussion on the service-profit chain model, if a company wants to better serve its customers, it has to start with satisfying its employees so that they're committed to delivering the best service possible to external customers. That's the essence of internal service marketing.

Internal service marketing is the process of motivating employees to deliver customer value and ensure customer satisfaction by acting as a team. While that is obviously true for frontline employees who interact with the customer, it is equally applied to all employees, including those behind-the-scenes employees who support the frontline employees. In other words, all employees of an organization need to be empowered to deliver great customer service.

Key components of internal service marketing include motivating employees, training them in customer satisfaction techniques, ongoing communication of company goals and objectives, and (of course) good pay and working conditions (Minute Tools Content Team, 2018).

Interactive Service Marketing—Keeping Promises

Interactive service marketing is the communication between the service provider and the customer, called a service encounter. The service encounter is where external marketing promises are either upheld, exceeded, or broken by employees.

Interactive service marketing is critical because it sets short-term and long-term customer satisfaction. In its simplest terms, when a customer is happy in the short term, they are more likely to be happy over the long term (Minute Tools Content Team, 2018).

Let's review the elements of the Service Marketing Triangle with an example of a fine-dining restaurant in a major metropolitan area. The three "parties" involved in the Service Marketing Triangle are the restaurant owner, the restaurant employees, and the diners. As part of *internal marketing*, the owner may offer training to servers about pairing certain dishes on the menu with wines offered by the restaurant or hold a "huddle" at the beginning of each shift to train servers about daily specials and wine pairings. As part of *external marketing*, diners might be lured to the restaurant through the restaurant's Facebook page, which touts its extensive list of wines and the fact that servers are experienced in recommending wines to enhance the flavor of the menu items. Finally, as part of interactive marketing, servers are encouraged to give diners full descriptions of all menu items and daily specials and recommend which wines to pair with their food choices, leading to a more satisfying dining experience (Ahmed, 2021).

Link to Learning: Service Marketing Triangle

Check out this brief video about the Service Marketing Triangle model to gain a better understanding.



Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

According to the service-profit chain model, what drives organizational profitability and growth?

a. Internal service quality
b. Employee satisfaction
c. Customer loyalty
d. Value

2.

The extent to which employees are happy or content with their work environment is known as which of the following in the service-profit chain model?

a. Employee satisfaction
b. Internal service quality
c. External value proposition
d. Customer loyalty

3.

Which two steps in the service-profit chain model are related and directly linked?

a. Internal service quality and value
b. Value and customer satisfaction
c. Customer satisfaction and customer loyalty
d. Internal service quality and increased productivity and growth

4.

In the Service Marketing Triangle, _____ occurs when employees and customers associate and communicate.

a. internal marketing
b. external marketing
c. interactive marketing
d. customer satisfaction

5.

In the service-profit chain model, there is a(n) _____ relationship between employee satisfaction and employee turnover.

a. behavioral
b. equivalent
c. parallel
d. inverse

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9.16: The Gap Model of Service Quality

Learning Objectives

By the end of this section, you will be able to

- Describe the Gap Model of Service Quality.
- List and describe the dimensions of service quality.

Dimensions of Service Quality

While we're still on the subject of customer satisfaction, let's take a look at still another model that aids marketers in better understanding customer satisfaction: the Gap Model of Service Quality (sometimes also known as the Customer Service Gap Model or the Five-Gap Model), first proposed in 1985. The importance of this model is that it demonstrates that customer satisfaction is essentially a function of perception. In other words, if the service provided meets or exceeds customers' expectations, they will be satisfied; if not, they will be dissatisfied, likely as a result of one of the customer service gaps presented below (Indeed Editorial Team, 2023).

According to the model (see Figure 9.11.11), there are five major gaps or potential inconsistencies organizations encounter in seeking to meet customers' expectations of the customer experience (Indeed Editorial Team, 2023).

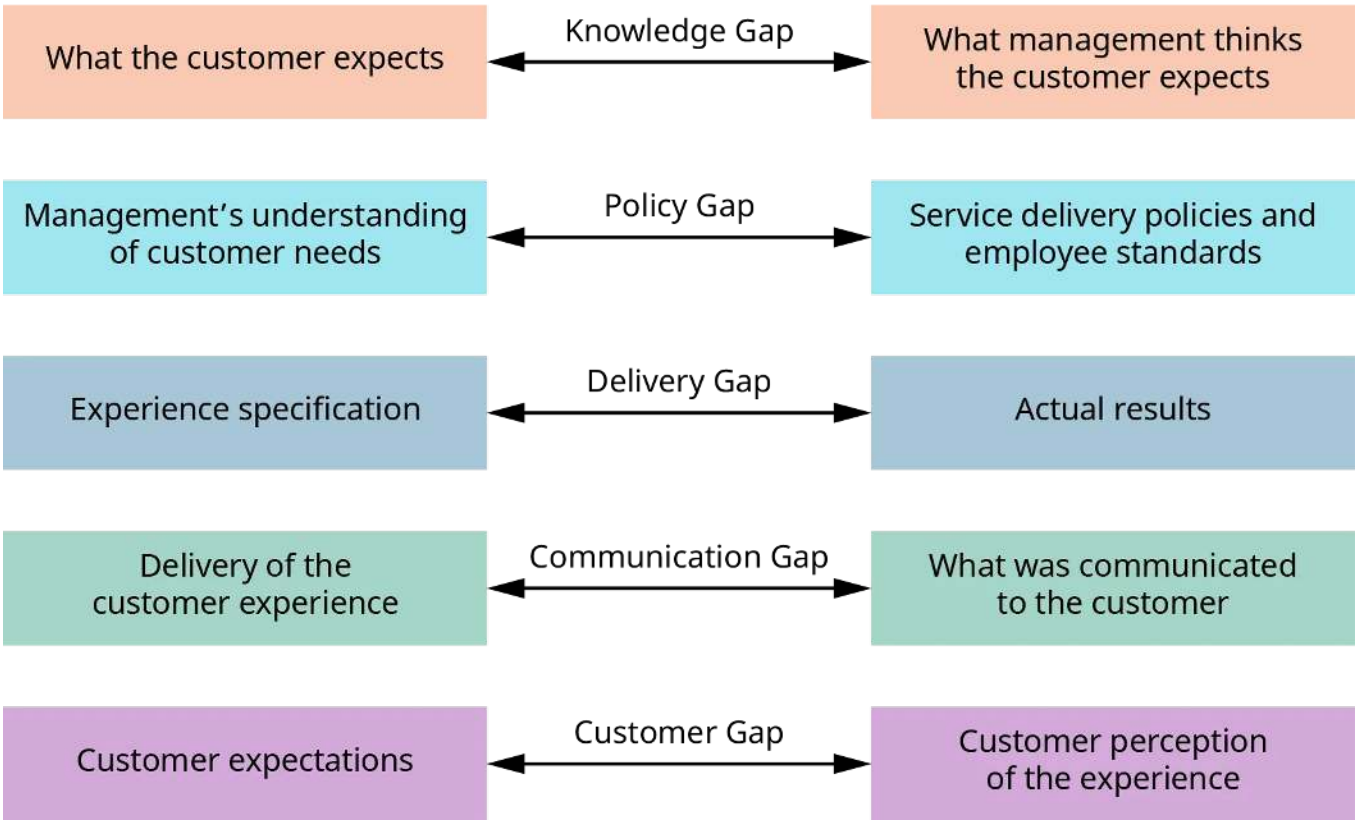


Figure 9.11.11 Gap Model of Service Quality (CC BY 4.0; Rice University & OpenStax)

The gaps are:

- Gap 1—knowledge gap: the difference between customer expectations and what managers *think* they expect
- Gap 2—policy gap: the difference between management's understanding of the customer's needs and how they translate that understanding into service delivery policies and standards for employees
- Gap 3—delivery gap: the difference between the experience specification and the actual results of the service
- Gap 4—communication gap: the difference between the delivery of the customer experience and what is communicated to the customer

- Gap 5—customer gap: the difference between the customer's expectations of the service or experience and their perception of the experience

Let's look at each of these gaps in more detail.

Gap 1: The Knowledge Gap

The knowledge gap is the difference between what customers expect and what the company *thinks* they expect (Indeed Editorial Team, 2023). The bottom line is that the company doesn't know exactly what customers want. This could be due to various factors—lack of communication between frontline employees and management, inadequate market research, or simply a failure to listen to customer feedback, including complaints. For example, a hotel manager may think that guests want a hot breakfast instead of a continental breakfast, but the reality is that guests are more concerned with the cleanliness of their rooms or the speed of the Internet service at the hotel than they are with breakfast.

Gap 2: The Policy Gap

The policy gap reflects the difference between management's perception of the customer's needs and the translation of that understanding into its service delivery policies and standards. Typically, management accurately understands what the customer wants, but performance standards haven't been established to ensure that the appropriate employee behaviors are displayed (Indeed Editorial Team, 2023). Using the hotel example again, assume that several customers have complained that the phone rings innumerable times before it is answered. Management wants to address this issue, so it establishes a policy that phones must be answered "quickly." What's your interpretation of the word *quickly*—two rings, four rings, six rings? Specificity here is the key.

Gap 3: The Delivery Gap

The delivery gap is the difference between service standards and policies and the actual delivery of the service. In this situation, frontline service workers *know* how to delight the customer; they simply aren't doing it. For instance, management may have established a policy that the front desk phones get answered on or before the second ring, but the front desk employees allow phones to ring much longer before answering. This gap may arise from improper training, lack of capability on the part of employees, unwillingness to meet the established service standards, or staff shortages.

Southwest Airlines is a great example of this. According to its website, the company's mission is "dedication to the highest quality of Customer Service delivered with a sense of warmth, friendliness, individual pride, and Company Spirit" (Peek, 2024). The company doesn't "overhype" its service, so there is no delivery gap—the difference between the experience specification and the actual delivery of its service. This is demonstrated by the fact that, compared to other airlines, Southwest has the greatest customer service rating, earning a 33.9 percent excellence rating (Peek, 2024).

Gap 4: The Communication Gap

If marketers are doing an effective job in terms of their promotion efforts, the customer is likely to be highly influenced by that promotion. The problem now is that the company had better deliver. The communication gap is the difference between the delivery of the service and what is communicated to the customer. In other words, what did the company promise versus what did it deliver?

Gap 5: The Customer Gap

The customer gap is the difference between the customer's expectations of the service or experience and their perception of the experience itself. In an ideal world, the customer's expectations would be nearly identical to their perception, but customer perception is totally subjective and has been shaped by word of mouth, their personal needs, and their own past experiences. The problem is that each individual perceives their world through their own eyes, and everyone perceives reality differently. In other words, while reality is a fixed factor, perception of reality is a variable.

Link to Learning: Understanding the Gap Model

Watch this video and learn more about quality of service and the gap model from Jochen Wirtz, a well-known marketing author.



Also check out this article from Indeed about the GAP Model of Service Quality, with examples.

The RATER Model

In their book *Delivering Quality Service*, researchers Valerie Zeithaml, A. Parasuraman, and Leonard Berry identified five dimensions of service that customers use when evaluating service quality. Their research indicated that these five dimensions result in service excellence and lead to higher customer loyalty. This model is sometimes known as the RATER framework of service quality (Arlen, 2018). Refer to Figure 9.11.12 for a visual representation of the RATER framework.

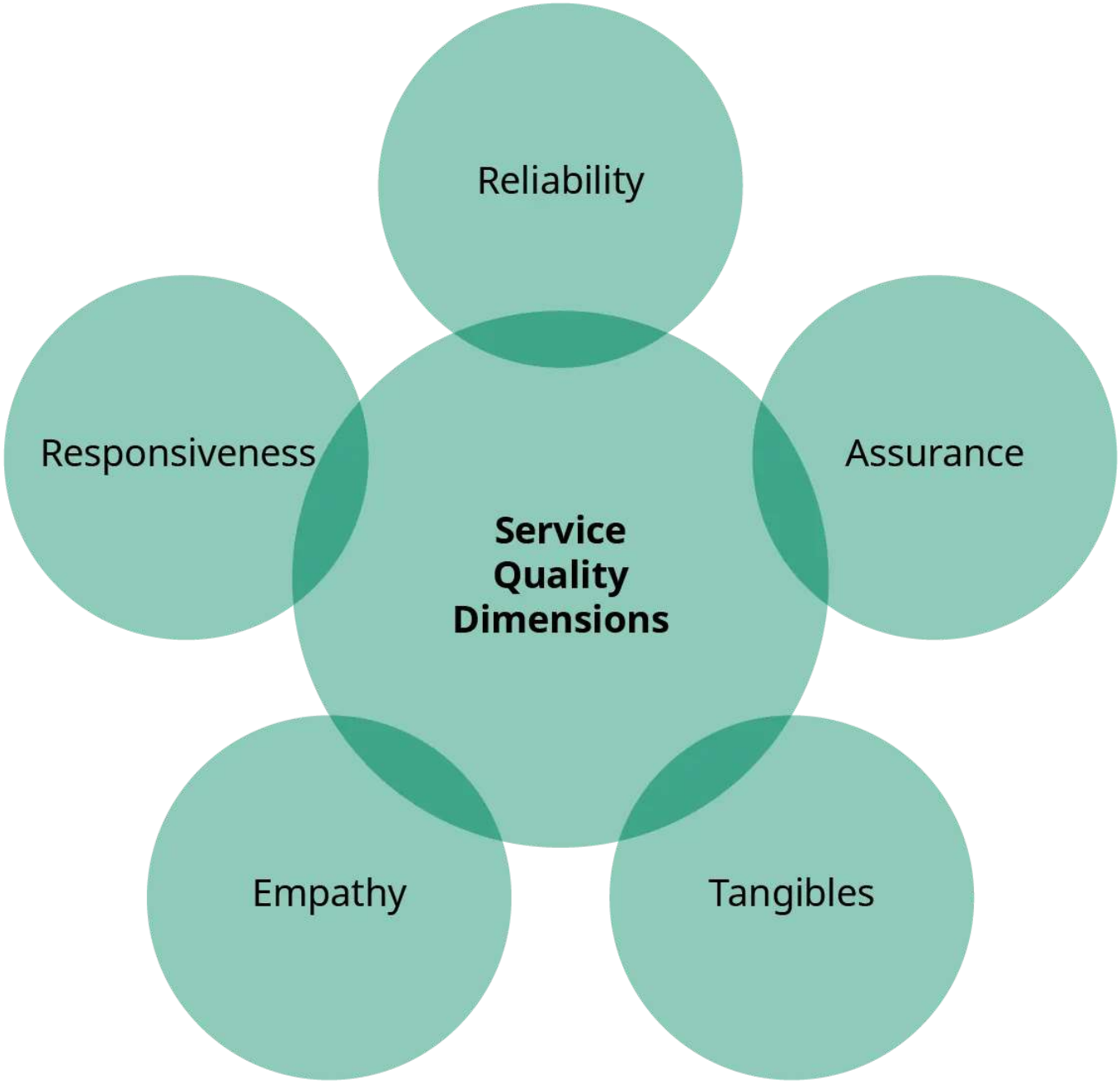


Figure 9.11.12 The RATER Framework of Service Quality (CC BY 4.0; Rice University & OpenStax)

Let's explore each of these dimensions (represented by the acronym RATER) in some detail:

Reliability

R, for reliability, depicts the organization's capability to provide accurate, dependable, and on-time service. Consistency is critical. Companies that provide on-time, error-free service to customers tend to have repeat customers. Research has shown that service reliability is three times more important to customers than the latest equipment or flashy uniforms. The bottom line regarding service reliability and quality is: Do you deliver as promised? (Arlen, 2018).

Assurance

A, for assurance, is the degree to which the organization inspires trust in its customers. For example, when you take your sick pet to a veterinarian or have your income tax return prepared (or any other service, for that matter), you expect the service provider to be an expert in the service they're delivering. Research has shown that communicating this expertise to customers is important. If

customers aren't aware of that expertise, they often have less confidence in that provider, leading to a low assessment of that provider's service (Arlen, 2018).

Does your organization inspire confidence in its service providers? Whether you're a hairstylist, a physical therapist, a tattoo artist, or any number of other service professions, it's important to communicate your expertise *before* you do the work. For example, a plumber's business card may contain the words "licensed, bonded, and insured." Hairstylists generally display their state licenses in their workspace. Doctors often have framed diplomas in the office from medical school, residencies, and fellowships. These are all ways in which these service providers communicate their competencies. Communicating these competencies to customers helps shape expectations and influence assessments in advance of the service (Arlen, 2018).

Tangibles

When we talk about tangibles in the RATER model, we're focusing on factors such as the physical appearance of both the physical facility and employees. Does your organization present itself professionally? This is one of the factors in the RATER metric that is hard to define because it takes into account customers' perceptions, and different customers may respond in different, subjective ways to the environment created.

Let's imagine that you're taking that special someone out for a romantic or special-occasion dinner at a fine-dining restaurant. What tangibles contribute to that experience? You may expect knowledgeable, uniformed staff; soft lighting and background music; an appealing menu; and clean restrooms. All of these tangibles will factor into your overall perception of the quality of service you receive.

Another good example of tangibles in terms of the RATER model is the Mayo Clinic in Rochester, Minnesota, where tangibles include Warhol prints on the wall, Chihuly sculptures hanging from the ceiling, and a professionally attired staff who project a sense of caring and expertise. There are 500 original pieces of art from 70 U.S. artists on display throughout the hospital (McCauley, 2012).

Customer perception isn't the only challenge marketers face in terms of tangibles. It's also the fact that, done right, customers may not even notice and point out the tangibles unless their feedback is negative. That's why listening and acting on customer complaints is critical in improving an organization's tangibles and promoting a strong customer service image (Simplesat, 2021).

Empathy

Empathy in terms of the RATER model means focusing on customers attentively to ensure that they receive caring and distinguished service. It isn't enough to be efficient and thorough in delivering service to customers—it's also about service providers "connecting" with customers during delivery of the service and making them feel valued.

You may have heard the old saying that it's not *what* was said, it's *how* it was said. The same is true of providing service. For example, let's go back to the example of that special dinner in the fine-dining restaurant. Imagine that you accidentally spill your beverage all over the table. A busser is called to clean the spill, change the tablecloth, and provide you with new silverware and napkins. That busser may have handled those tasks effectively and efficiently but didn't make eye contact, smile, or ask if you needed anything else. In this hypothetical situation, the busser's tasks were performed fully, but you didn't feel they cared about your predicament (Simplesat, 2021).

Responsiveness

A service staff's desire to treat customers with respect and provide satisfactory and quick service speaks to their responsiveness. This dimension focuses on promptness and willingness. Accordingly, the organization has to ensure that customers are getting quick service, without delay, and with an effort that makes customers believe the company genuinely wants to help them (Kobiruzzaman, 2020).

Responsiveness is directly in line with the time customers wait for an answer or a solution. Have you ever called an organization with a service question and had to play "20 Questions" with the company's automated phone system? You know the drill—press 1 for option A, press 2 for option B, press 3 for option C. The chances are that your patience evaporated after about the fourth telephone prompt and you were left screaming "Representative" into your phone. That's a classic example of a company that needs to focus on its responsiveness if it wants to generate customer loyalty.

Link to Learning: Applying the RATER Model to Real-World Companies

Check out this video about Disney guest service and the RATER model.



Also look at this article that applies the RATER model to Amazon, Thermomix, Apple, and a bank.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Which gap in the Gap Model of Service Quality represents the difference between what customers expect and what the company thinks they expect?

a. Communication gap
b. Customer gap
c. Knowledge gap
d. Policy gap

2.

Management in a hotel perceives that the biggest problem in customer service is the length of time that it takes to check in guests, so they have established a policy that check-in will take no more than 5 minutes. Which gap in the Gap Model of Service Quality does this action illustrate?

a. Policy gap
b. Delivery gap
c. Communication gap
d. Customer gap

3.

In the Gap Model of Service Quality, which dimension is the difference between the customer's expectation of the service and their perception of the experience?

a. Communication gap
b. Delivery gap
c. Customer gap

d. Knowledge gap

4.

The acronym RATER in the RATER framework of service quality stands for which dimensions of service quality that result in service excellence and lead to higher customer loyalty?

a. Responsibility, accuracy, tangibles, empathy, and responsiveness
b. Risk, acceptance, transparency, earnings, and revenue
c. Reliability, assurance, tangibles, empathy, and responsiveness
d. Revenue, appreciation, trust, efficiency, and responsibility

5.

Which dimension in the RATER model represents the physical facilities, employees' appearance, equipment, machinery, and information systems?

a. Assurance
b. Responsiveness
c. Transparency
d. Tangibles

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9.17: Ethical Considerations in Providing Services

Learning Objectives

By the end of this section, you will be able to

- Describe the ethical considerations in providing services to customers.
- Discuss how ethics contribute to customer satisfaction.

How Do Ethics Contribute to Customer Satisfaction?

In 2019, AT&T ran a series of TV commercials featuring a variety of professionals who don't quite "make the grade." These commercials included a surgeon who has "almost" been reinstated and a tax professional who will get your taxes into an "okay" place when his audit is over. The catchphrase of each of these commercials was "Just OK is not OK." The same is true of an organization's ethical culture. Do you want your ethical culture to be "just OK"?

In this chapter, we've been talking about the importance of building customer loyalty, which drives profitability and growth. But what about the link between ethics and customer loyalty? Ethics are becoming central to consumers, employees, and a company's reputation (and hence its ability to gain customer loyalty). New research from Mintel (2015), a market intelligence agency, reveals that over half of US consumers stop buying from companies they perceive to be unethical. Talk about a wake-up call!

Service Excellence through Ethics

Obviously, ethics matter. But how do you ensure that those ethics are instilled and demonstrated by your employees, particularly those frontline employees who interact directly with the customer? The National Ethics Association (NEA) has two suggestions. First, within your ethics program, make customer service a core component. Second, promote values and ethics, and include them within the rules for your frontline workers along with the consequences if they aren't followed (National Ethics Association, 2011).

According to the NEA, steps can include the following:

- Identifying customer service behaviors that are unethical, like lying to customers or failing to display sensitivity to customers with problems.
- Training employees on an ongoing basis in desired behaviors.
- Ensuring customers know that promises aren't empty words but rather a commitment to their satisfaction.
- Monitoring interactions between frontline employees and customers to spot ethical gaps, especially in times of high stress and work volume.
- Leading by example. It's not enough to just "talk the talk" when it comes to ethical behavior within the organization; managers also need to "walk the talk." It's important to "walk the talk" of ethical behavior as a model for employees when dealing with customer complaints and problems (National Ethics Association, 2011).

Royal Caribbean Group is another company that takes its ethical behavior seriously. It has a Code of Business Conduct and Ethics decree that connects its core values (fairness, integrity, honesty, and trustworthiness) to all of its actions. Chairman and CEO Richard Fain reaffirms its commitment to integrity and an ethical culture and states, "Simply complying with the law is not enough; we need to be ABC (Above and Beyond Compliance)" (Royal Caribbean Cruises Ltd., 2023). Beyond just words, however, the company has established an ethics hotline managed by The Network, a leading third-party hotline provider. Using this ethics hotline, employees can anonymously report their concerns about ethics violations 24 hours a day, 7 days a week, by either telephone or the Internet (Chief Executive Office, 2014).

Link to Learning: Royal Caribbean

Read more about Royal Caribbean's Code of Business Conduct and Ethics on its website.

Also, read this article on the potential ethical issues specific to service marketing.

Companies with a Conscience: Nasco Gulf

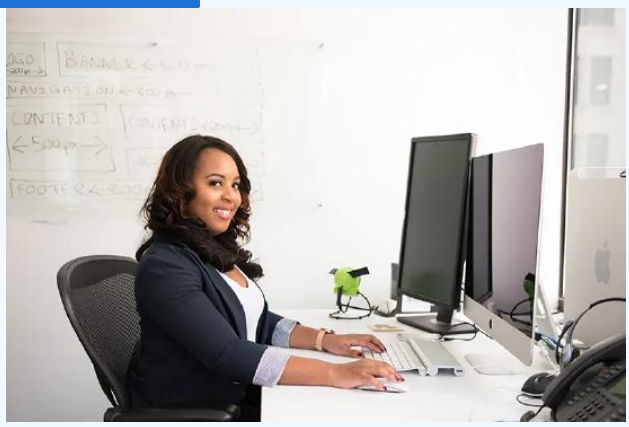


Figure 9.11.13 Ethics are becoming increasingly more important to customers and the services they use, so companies like Nasco Gulf, an insurance company, are focusing more on trust as a way to develop long-term loyalty. (credit: “WOCinTech Stock - 81” by WOCinTechChat.com/flickr, CC BY 2.0)

You may not be familiar with Nasco Gulf, a leading insurance agent in Dubai, but the company stands out in its Customer Service Code of Conduct (see Figure 9.11.13). The “customer service mission is to provide customers with timely, responsive service with integrity, simplicity, and a passion for excellence while meeting or exceeding the customer’s expectations" (Nasco Gulf, 2021).

The principles upon which Nasco serves its customers are trust, understanding, and resolve. The following is from its Customer Service Fundamental Principles:

- “Trust—I work hard to gain and maintain customer trust in us . . .
- Understand—I understand our customers and their needs . . .
- Resolve—I solve our customer’s problems, even if the solution is difficult” (Nasco Gulf, 2021)

Nasco lists its values on its website for all to see. The company outlines that its word is good, it is a bold partner, it works to earn loyalty, and it focuses on what matters. For more information about Nasco Gulf, visit the Nasco Gulf website.

Link to Learning: When It Goes Wrong

We have all heard the stories where companies poorly handled a customer issue, and you can easily find numerous videos where customers have recorded a company’s poor customer service. Here are a few articles that share some of the more well-known stories:

- CBS News
- RingCentral
- Forbes

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9.18: Applied Marketing Knowledge- Discussion Questions

1. Think of a product that you have used recently. What are the core, actual, and augmented products?
2. How would you promote a shopping product differently than a specialty product?
3. Look at the Oreo product line. Why are there so many products? What purpose does this variety serve?
4. Consider the Sears brand. Which stage of the product life cycle is Sears currently in? What do you recommend it do to change this stage?
5. Discuss a brand to which you are loyal. Why are you loyal to the brand? How does the brand contribute to your loyalty?
6. Would you consider yourself a switcher, shifting loyal, split loyal, or hard-core loyal for your favorite brand? Why?
7. Look at the Apple brand packaging in this chapter. How does this packaging meet the criteria that we discuss in the chapter?
8. Review Boxed Water Is Better's website. How do the website and packaging address environmental concerns?
9. Discuss a brand's packaging. How could the brand reduce its packaging or introduce recyclable packaging?
10. Why are safety statements important on packaging? What might you add to product safety statements?

Review this *Houston Chronicle* article about the eight elements of service marketing. Pick two different service-oriented organizations and describe each of these eight elements as they relate to the service each company offers. Conduct additional research if needed to address these eight elements.

Take the information that you have learned about internal and external marketing and describe two instances where, as a student, you have noticed excellent and poor marketing strategies. Are they internal or external, and why did you feel the way you did about them?

Consider service variability instances where you were a customer and noticed exceptional service and poor service. For each instance, answer the following questions:

1. Were you surprised?
2. What specifically made you notice?
3. Have you had this experience before with this company or another company?
4. What response did you have? For instance, did you compliment? Tip? Complain? Do nothing? And why?
5. If you were the company owner, what kind of training program would you develop to address the poor service you experienced? What might you implement as a reward for exceptional service? Why?
6. Analyze the differences between internal and external marketing.
7. Define both terms.
8. Consider and list the positive impact that both internal and external marketing can have on an organization.

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9.19: Critical Thinking Exercises

1. Brainstorm purchases that you have made this week. Classify each into convenience products, shopping products, specialty products, or unsought products.
2. Explain the product life cycle. How and why might it change based on certain criteria?
3. Examine the package of a product that you have in your pantry at home. Determine how the packaging aligns with the brand, protects the product, and displays value.

Agree or disagree with the following statement: I tip for service based solely on the amount of the bill, not on things like quality of service, timing, etc. Discuss or make a list of the reasons why you agree or disagree.

Nordstrom's reputation was built upon its value proposition of superior service. The company has maintained a high level of service over the years. Research other retailers that have a similar service-oriented value proposition. It could be a car company, restaurant, clothing store, etc. In looking at the changing demographics, do you believe this level of service will continue to be perceived as value? If not, what will take its place?

Have you ever experienced service that was so poor that you did not return? Compare your views with someone that you know. Is this a common service issue?

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9.20: Building Your Personal Brand

Can you honestly say that you “own” who you are? Do your habits and mannerisms belong to you? Are you comfortable in your skin?

In her TED Talk, Harvard professor Amy Cuddy discusses how body language impacts how others perceive you. Our nonverbals give others a perception of who we are and how we are feeling. Our body language conveys dominance, much like animals do to show their power. Our posture and the space that we take up signal confidence. But sometimes, we take cues from others. If our conversation partner is showing dominance, our body language might shrink in response. It turns out that posing for dominance changes the way we think and act. Use body language to your advantage next time you are trying to make an impression (Cuddy, 2012).

Watch Amy Cuddy’s video “Your Body Language May Shape Who You Are” and develop a perspective on how you can use body language to develop your personal brand. Specifically, write a 1-to-2-page document outlining what you will start doing and what you will stop doing, and explain why. Your professor might even enjoy seeing a photo of your “power pose.”



“Communication is the act or process of using words, sounds, signs, or behaviors to express or exchange information or to express your ideas, thoughts, feelings, etc., to someone else" (Merriam-Webster, 2024). What type of communicator are you? Analytical? Intuitive? Functional? Personal? Research communication styles and describe which best describes you. Outline a plan for how you might communicate with those who adhere to a different style. To get started, try this free communication style assessment. There are also other assessments available online, so try a few and see if there are any differences.

Keep in mind that communication also includes nonverbal signs such as our facial expressions and body language. How does your body position change when communicating a happy story versus a sad story? Try this body language self-assessment.

A large percentage of our personal brand comes from how we communicate with others. Think about the people you admire; odds are they communicate in a way that you understand and to which you relate. Work on becoming comfortable in your style and recognizing the styles of others. If you do this, others will be comfortable with you, and they will remember you. Often, a key component to a promotion is being noticed and remembered for the personal brand you exhibit.

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9.21: What Do Marketers Do?

A product manager is the keeper of a brand. Their job is to develop the product strategy—the what, where, when, and how much of a product. Then, a product manager coordinates a cross-functional team of professionals from marketing, development, finance, legal, operations, manufacturing, supply chain, and more to bring the product to market successfully and shepherd it through its life cycle. Product managers understand how strategy underpins a product's success in the market and serves as a path to grow the brand.

Interview a product manager to determine the following:

1. What is their philosophy on successful product management from launch through the product life cycle?
2. What does their job entail? Who are the key members of their product ecosystem?
3. What is the career path that led them to this role?

Product managers can be found at companies of all sizes, including both B2B and B2C. You can use your network on LinkedIn or your professor to source an interviewee.

Considering that "70% of small businesses are operated and owned by a single person," the question arises: Who is doing the marketing? (Georgiev, 2024).

Find at least two small service businesses, one that you know to be successful and one that might be hanging on by a thread (hair salons, dry cleaners, mechanics, party planners, florists, etc.). Call and see if you can arrange a time, either on the phone or in person, to ask questions about their marketing efforts. You might want to do a bit of homework before you do. Here are questions that will help you gather information:

1. Do they consider what they do to promote their business as marketing?
2. Do they have someone who helps them?
3. Do they have a website or Facebook page?
4. What are the main activities that they do to market their business?
5. Do they have a formal business plan? A budget?
6. How do they figure out what their budget should look like?
7. Are there efforts they consider successful and anything that seriously did not work?
8. Do they respond to the marketing of their competitors?

Of course, there are additional questions that you can ask as time permits. The idea here is to get a good look at the challenges of marketing a small business. Is this something you see yourself doing—perhaps even as a business of your own?

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9.22: Closing Company Cases

Ramblewood

In 2018, husband and wife duo Zach and Riley McDonald began getting a flood of requests to help with events. Each individually had significant talents. They were great foodies, and they understood good food both in taste and in presentation. Their combined skill for aesthetics in design, display, color, and texture was remarkable. And they were both gifted at bringing everything together and staging it like a flawlessly produced Broadway show.

When the idea to create an event-planning business started to become a reality, both were employed full-time while also tending to their young family. To say their plates were full was an understatement. However, after helping with a few events, the duo realized they had a passion for event planning, and they both really enjoyed working with people, helping others to bring their dreams to reality.



Figure 9.16 Ramblewood's unique value proposition is that it is a one-stop shop for the various components involved in hosting an event, like a wedding. (credit: "Taipei Sheraton Taipei Sheraton" by spongebabyalwaysfull/flickr, CC BY 2.0)

Zach and Riley were both very involved in their community, and they were often guests at events around town. They noticed a lack of coordination between all the moving event components—planning, floral design, event rentals, decor, and catering. Was there a marketplace need to coordinate an event from beginning to end?

After putting together a few events for friends and acquaintances, they received rave reviews. Requests started pouring in for their services. With a keen eye for every detail and methodical oversight for all facets of an event, the Ramblewood team had a unique niche in its market. And with a robust start, Ramblewood came to life.

Ramblewood had a compelling value proposition as a one-stop-shop for all event components. It was not uncommon for an event host to research, interview, and coordinate with musicians, furniture and linen rentals, caterers, florists, bakers, digital designers, and printers. Ramblewood would do it all and coordinate it seamlessly to take some of the stress off the work of an event.

While weddings might be the primary event market, Ramblewood had a strong following with corporations, family reunions, baby showers, bridal showers, and birthday parties. No event was too big or small for Ramblewood. If clients wanted to host an event to flawlessly match a vision, Ramblewood could make it a reality.

With over a decade of art and design experience, Zach and Riley could sit down with their clients and hear about their dreams and visions to bring them to reality. The team had a special skill for looking at creative ways to stretch the budgets and create focal points that would make an experience unforgettable.

As the business was getting off the ground, Zach and Riley wondered how to scale and still create the unique experience expected by every event. However, they were worried that quick growth might damage their unique brand. The two wanted to maintain the integrity of the brand. Every event deserved the same attention to detail and beauty they had built into their very first event.

Zach and Riley quickly realized that every event they managed was in fact their “calling card.” Guests who attended Ramblewood events talked about the experience. Guests discussed the beauty of the flowers, the exceptional food, the layout and decor, and, most importantly, how well the event flowed. Each event had elements that created “oohs” and “ahs” that prompted the question, Who created this event? Marketing through word of mouth and social media seemed to be creating the growth engine Zach and Riley were seeking.

The essence of the Ramblewood brand was to create the vision and develop a magical experience for every guest in attendance. “From small intimate home parties or dinners to large upscale corporate events, we love them all. We love hearing what the event is about and who it is for and then custom building your event into a true lasting experience” was Ramblewood’s mission (2024).

After four years of unforgettable events, the duo extended their brand with an upscale gourmet grocery market to deliver event elements in one location. Market customers could stop in and take a little bit of Ramblewood home. Ramblewood created RMarket, a place for a few magical moments that is available to everyone, including napkins, flowers, food, decor, and dishes.

The small company Zach and Riley launched grew rapidly, and its brand was associated with the best events in the South. Growth was coming with the addition of its gourmet food market, and the two were looking for the next steps for their business (CityScope Magazine, 2024).

To learn more about Ramblewood, visit its website.

Case Questions

1. Ramblewood provides many benefits to its customers. What are the four levels of product provided by Ramblewood?
2. Products are tangible items offered for exchange between a buyer and seller. Services are intangible solutions that are also an exchange between buyer and seller. Ramblewood provides event planning. As part of its “offering,” it also supplies flowers, decor, and food. Where does the Ramblewood offering fall on the product–service continuum?
3. Ramblewood was able to capitalize on positive word of mouth to build its business at the introduction stage. As it entered the growth phase, it incorporated some marketing strategies used by many companies. What did Ramblewood do to fuel growth?
4. Brands are built in the hearts and minds of the customers. Successful brands engage customers on a personal level, connecting to their emotions and needs. Name some of the strategies Ramblewood uses to create its brand.

Adventist Health Castle

Adventist Health Castle in Kailua, Hawaii, is an award-winning hospital focused on serving the mind, body, and spirit of its patients. The 300 physicians provide services to the entire island of Oahu, following the mission to “care for the community and share God’s love" (Adventist Health Castle, 2024a).

Adventist Health Castle offers programs in wellness and lifestyle, cutting-edge weight-loss procedures, and advanced imaging techniques. All programs come with a patient-focused approach with compassion and dedication from its health team. The mission statement of “transforming the health experience of our community by improving health, enhancing interactions and making care more accessible” is accomplished through “integrity, compassion, respect, and excellence" (Adventist Health Castle, 2024b). In 2017, it won the Malcolm Baldrige National Quality Award, an award that recognizes the excellent patient care the staff provides to the community.

Adventist Health Castle is proud of its Wellness and Lifestyle Medicine center because of the variety of health education and lifestyle resources it provides for the community. It offers classes, events, and services to the public for a small fee or often for free. Check out more here about the medical services it offers.

Health systems are a product of the community they serve, and Adventist Health Castle is no exception. To help with its cause, it developed a community needs assessment to understand the concerns and needs of the populations within its service area. From that work, it has developed numerous programs and events, including diabetes care classes and improved access to health services. It also added ENT, cardiology, and dental services to its Rural Health Clinic in Laie. With this addition of the new Rural Health Clinic, Adventist’s system served 2,432 unique patients in its first year (Adventist Health Castle, 2019).

With its work, Adventist Health Castle expanded access to classes to include a center in Kaneohe. Multiple locations allow the health system to extend its reach to the community with more classes and events. And it’s working! Through a postcard mailing, Adventist received a positive response to class enrollment.

Another initiative created around better access to care included having physician practices add more office hours, including evenings and weekends. Through this effort, Adventist has been able to engage with more patients and coordinate care better for the populations it serves.

With this work, the community has seen many positive outcomes, including increased overall health due to the greater availability of health center resources. Serving a community means adapting to the needs of the community and meeting the populations where they are most vulnerable.

Case Questions

1. Adventist Health Castle is a health system operating to serve the population of Oahu. How would you classify its services?
2. When community members choose to take a class on diabetes management, they are learning about diabetes from a clinical nurse instructor. The instructor informs the participants of the health risks associated with unhealthy lifestyle choices. Different clinical nurse instructors teach the classes each time. Depending on who teaches the course, the participants may learn the risks of a sedentary lifestyle. This is an example of which service characteristic?
3. Adventist Health Castle realized that access to health services was an important need in its community. To provide for that need, it developed a multidisciplinary clinic to serve rural communities. It immediately started seeing and treating patients. How does this fit into the service-profit chain?
4. When Adventist Health Castle added more hours to physician practices, what dimension of service quality was it addressing?

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9.23: 9.22 Key Terms

Table of Definitions

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Product	Definition
unsought products	consumer goods that a buyer doesn't anticipate purchasing
actual products	product available for purchase
trademarks (service marks)	symbols that show legal ownership of a brand name or brand mark
tangibles	in terms of the RATER model, the physical appearance of both the facility and its employees
switchers	customers who continually change their purchasing behaviors
supplies and services	goods and services that are typically disposed of and do not contain a tangible value
split loyals	customers who have a consideration set of two or three products or services in a category
specialty products	products that have unique qualities that consumers will make an extra effort to seek out
slow skimming strategy	strategy that sets high prices with low advertising and sales promotion investment
slow penetration pricing strategy	strategy that sets low prices and little promotion to capture market share
shopping products	products that require more thought from the consumer as they seek the best quality or price
shifting loyals	customers who are loyal to one product or

Product	Definition
	service for a time, then turn their loyalty to a d
services	nonphysical, intangible economic activities
services	intangible solutions that are an exchange between buyer and seller
service-profit chain model	model that establishes relationships between profitability, employee satisfaction
service variability	concept that states the quality of the service depends on who, when, where, and how it is delivered
service perishability	concept that states services cannot be stored in inventory for future use or sale
Service Marketing Triangle	a visual representation of a strategic model that outlines the importance of people
service inseparability	concept where services must be produced and consumed concurrently
service encounter	a consumer's direct contact with a service provider
responsiveness	in terms of the RATER model, promptness and willingness to provide satisfactory and quick ser
reliability	in terms of the RATER model, the organization's capability to produce an accurate, dependable, a
raw materials	products that a business needs to purchase to make a consumer good

Product	Definition
RATER framework of service quality	theoretical model that focuses on the five dimensions of service excellence
rapid skimming strategy	strategy that sets a high price along with extensive advertising and sales promotion
rapid penetration pricing strategy	strategy that sets a lower-price strategy; appropriate when volume sales
profit margins	a widely used financial measure to determine the profitability of a business; considers costs
products	tangible items that are part of an exchange between a buyer and a seller
productivity	the efficiency and output of employees
product modification	alteration of products to fit the market
product mix width	the number of product lines a brand carries
product mix	all the products a company sells
product line stretching	addition of product lines
product line filling	products added to a product line to keep competitors from entering the market
product line depth	the number of products in a line
product line	a set of products that are similar or complementary
product life cycle	the stages a product goes through, tracking its sales and profitability
product item	a particular good that a

Product	Definition
	company sells
private-label brands	store brands that are similar products to a national brand and labeled privately
possession processing	services in which the service is directed toward the customer's physical possessions
policy gap	in the GAP Model of Service Quality, the difference between managers understanding customer needs
people-based services	tasks in which people, rather than equipment or machinery, play a major role in the de
people processing	services in which the customer is the direct recipient of the service and production, and c
new brands	an entirely different brand entity from a parent company
net profit margin	calculation that deducts all expenses from profitability
national brands	name brands that sell a product or service under its corporate name and identity
multibrands	new brand names within a company's existing product category
mental stimulus processing	situation in which the services interact with the customer's mind rather than the
maturity stage	part of the product life cycle when sales growth slows and profitability levels off
market modification	an extension of a

Product	Definition
	product to new customers
manufactured materials and parts	products used to create a product
line extensions	products that create new opportunities for an existing product and brand
licensed brands	brands that provide the likeness of their brand as a fee for use
knowledge gap	in the GAP Model of Service Quality, the difference between what customers expect and what man
introduction stage	part of the product life cycle when consumer awareness is building and sales are starting
internal service quality	the perceived level of satisfaction an employee experiences with services offered b
internal service marketing	satisfying employees to motivate them to work as a team to satisfy customers
interactive service marketing	the communication between the service provider and the customer; also called a
intangible	unable to be seen, tasted, felt, smelled, or heard
information processing	intangible actions directed at a customer's assets, such as insurance or consulting
harvest	to reduce all unnecessary expenses to retain any remaining revenue
hard-core loyals	tried-and-true customers who will

Product	Definition
	generally only purchase one brand in a category
growth stage	part of the product life cycle characterized by increasing sales; stage when copycat brands may
gross profit margin	comparison of profit before expenses to total revenue
GAP Model of Service Quality	theoretical marketing model that helps to identify the gaps between the perceiv
external value proposition	the value companies promise to deliver to customers post-purchase
external service marketing	the action of promoting or selling services to customers and potential customers
equipment-based services	when machinery or equipment plays the primary role in the service delivery
employee satisfaction	the level of happiness and contentment employees have about their jobs and the work en
employee retention	an organization's ability to retain its employees and stop employees from leaving
empathy	in terms of the RATER model, focusing on customers attentively to ensure they receive caring and dis
divest	to sell a brand or discontinue a product to protect a portfolio
delivery gap	in the Gap Model of

Product	Definition
	Service Quality, the difference between the experience specification and th
decline stage	part of the product life cycle characterized by a significant decrease in sales and profitability
customer satisfaction	a measurement that determines how happy customers are with a company’s products, servi
customer loyalty	an ongoing positive relationship between a customer and a business that drives repeat purch
customer gap	in the Gap Model of Service Quality, the variance between the customer’s expectations and their
customer experience	the overarching impression that customers have of a brand
cradle-to-cradle packaging design	product design that eliminates waste from the life cycle of package
cost of goods sold	expenses directly attributable to the product or service
core product	product solution that the customer is actually buying (convenience, ego, ease, flexibility, etc.)
convenience products	products that consumers can purchase easily, quickly, and without a lot of thoughtful d
communication gap	in the Gap Model of Service Quality, the

Product	Definition
	variance between what is communicated to the cust
co-brand	to bring the equity of two brands together for greater value
capital items	assets valuable to a business that also have tangible value
branding	the process of developing a brand
brand value	the financial asset associated with a brand
brand preference	measure of the degree to which a brand is preferred over others in the category
brand positioning	the way a brand signals emotions in consumers' minds
brand name	the official name of a brand
brand lift	measure of customer and noncustomer perception of a product over time
brand extensions	products that leverage the brand name to new product categories
brand equity	the additional value that a brand has over a substitute
brand engagement	measure of how deeply the customer identifies emotionally with a brand
brand	an intangible asset with tangible value; made up of promotion efforts and customer meaning
augmented product	a product having unseen aspects essential to customers
assurance	in terms of the RATER model, the degree to

Product	Definition
	which an organization inspires trust in its customers

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CHAPTER OVERVIEW

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10.1: In the Spotlight

In February 2005, Amazon launched Amazon Prime, which offered unlimited two-day delivery for millions of items (Brown, 2023). At a time when consumers were accustomed to paying high shipping fees and experiencing slow service, the membership service—$79 per year—offered a new alternative. It was a first-of-its-kind pricing structure that has sparked many companies to do the same. Today's subscription services cover everything from toilet paper to dog toys. Amazon Prime is still arguably the most prevalent subscription service in history. In 2021, Amazon reported its Amazon Prime members had reached 200 million worldwide (Tatevosian, 2021).



Figure 10.1 Price is one of the marketing mix elements and a factor that impacts customer decisions. (credit: modification of work "Thrift Shop Helps Consumers, Community" by W. Wayne Marlow/USAGHumphreys/flickr, CC BY 2.0)

The membership, according to a public letter from Jeff Bezos, executive chair of the Amazon board, "takes the effort out of ordering; no minimum purchase and no consolidating orders. Two-day shipping becomes an everyday experience rather than an occasional indulgence" (Trap Nation, 2014).

Since its first offering in 2005, Amazon has raised its prices only three times—in 2014 to $99 a year, in 2018 to $119, and most recently to $139/year (Sekar & Tindall, 2022). While rumbles in the market suggested that these price increases might drive away customers, Amazon has proven this was not true. The price increases through the years also included new benefits—Amazon Prime Video, Prime Pantry, Prime Reading, and many others. The company demonstrates that consumers are, in fact, willing to pay higher prices—so long as they can perceive value that is added to the increase in price.

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10.2: Pricing and Its Role in the Marketing Mix

Learning Objectives

By the end of this section, you will be able to

- Define pricing.
- Explain pricing and its role in the marketing mix.
- Explain the psychology of pricing.

Pricing Defined

Anytime anything is sold, a price is involved. Recall that during the exchange process, a seller is offering something of value to a buyer in exchange for something also of value. This value to the seller is often referred to as price. The practice of pricing is not a new concept. Some of the oldest records of prices ever discovered were found on clay tablets with symbols in Uruk, located in modern-day Iraq. The records are written receipts of exchanges of sheep, beer, and barley and date back to 3300 BCE (Fishman, 2003)!

You may recall that price is one of the 4Ps of marketing, or one element in the marketing mix. Once a product has been developed, marketers must determine at which price the product or service will be offered to the target market. Today, pricing is one of the more difficult decisions that marketers must make in the marketing mix because it directly impacts the perception of value from the customer as well as the company's bottom line. Poor pricing decisions can have immediate and catastrophic effects on profits that are difficult for companies to recover from. Price decisions must be linked to a product or service's real and perceived value while considering competition, supply costs, and when discounts should be offered.

Simply put, price refers to the exchange of something of value between a buyer and a seller. The price determines how much revenue the company will earn and drives the organization's financial health. However, marketers cannot simply price products and services based on the organization's expected revenue. The price must be set so that the buyer sees value in the product offering and the price they will pay for it. In other words, marketers must put the perception of value in the product's price at the forefront while also considering the financial impact on the organization.

While price is what is referred to when discussing most goods and services, price can take on many terms depending on the exchange that is taking place. In higher education, you are paying tuition—the price—in exchange for your education. If you need an attorney, you will likely pay a fee—the price—for services rendered. When you are traveling and must pay a toll, it is the price you pay for using the road or bridge. Regardless of the exact terminology used, the pricing of goods and services shares the same basic elements.

Elements of Pricing

While a marketer is determining the price of goods and services, they must keep in mind that pricing must benefit both parties involved in the exchange process: the seller (company) and the buyer (customer). Both parties must see value in the product process through pricing for the exchange process to be successful. We'll first discuss how price is an indicator of value to the buyer and then turn our attention to the seller.

Price as an Indicator of Value

When a buyer purchases a product or service, they seek to satisfy a need through the purchase. The customer will, consciously or not, use several criteria to determine the amount they are willing to spend to satisfy that need. These criteria ultimately lead to the value that the customer sees in the product.

The price-value equation is the consumer's subjective assessment of what they consider a value. The price-value equation states that, as a customer's expectations are met at what they consider an acceptable price, value is realized. Value is related to the quality and price of the product, and the formula is:

$$\text{Value} = \frac{\text{Quality}}{\text{Price}}$$

For example, if a consumer purchases a high-end designer Chanel handbag for $11,000, they might equate the value to a beautiful, high-end, well-made handbag that will last for many years. They may also subconsciously believe the bag will portray a certain social status while carrying it. For them, the product has value and quality, and they are willing to pay a high price.

Consider another example: you are fixing dinner and realize you don't have enough milk for the dish you are preparing. There is a convenience store just a block away from your house and a grocery store five miles away. If you send your partner to walk to the closer convenience store, they will pay more for the milk than if they were to drive the extra five miles to the grocery store, which would be less expensive. With the higher-priced item at the convenience store, you are paying for the convenience. The value in this scenario is in the time saved, even at a higher price.

In these two examples, the perceived benefits are directly related to the price-value equation. Perceived benefits can include status, convenience, brand, and quality and vary from buyer to buyer or even situation to situation.

Perceived costs can also include a host of criteria in addition to the price printed on the price tag. Let's return to the milk purchase example. If the situation were different—say you were not in the middle of cooking dinner—would your decision change? Perhaps. You will still consider other factors before making the decision. How long does it take for you to drive that extra five miles? Is the grocery store known for having long lines during the time you will be shopping? Do you need other items you can only get at that store? Does the store carry the brand of milk you prefer? These are only a few of the many considerations you make before you decide to make the purchase. These are all perceived costs and are weighed against the perceived benefits the buyer considers when determining value.

Marketing in Practice: Upside



Figure 10.2 Upside is an app that benefits both customers and businesses by playing on the psychological effects of pricing. (credit: "iPhone Home Screen" by freestocks.org/flickr, Public Domain)

Founded in 2016, Upside is an app that promotes itself as saving customers money on purchases at gas stations as well as helping local brick-and-mortar businesses earn more profit. Here's how it works: Upside links to gas stations, restaurants, and grocery stores within a specified mile radius of the user. The user chooses to claim an offer on the app and has four hours to upload the receipt. The linked businesses have contracted with Upside to drive business to their establishment. Once redeemed, cash is deposited into the user's account and can be cashed out for gift cards or to a PayPal account.

Upside is banking on the value equation as well as psychological factors of pricing to attract both buyers and sellers. Gas prices, for example, are relatively unchanged from station to station in a small geographical area. If the user can get 25 cents cash back per gallon on their fill-up, they may swap the convenience of the closer station with that of getting a cash reward at a station a few miles away. If the buyer chooses the station with cash back over one without, the seller (gas station) also finds value in a one-time or new customer.

For more information about Upside, visit the app's website.

Price in the Marketing Mix

Recall that the marketing mix elements include product, price, promotion, and place. Marketers create value by maximizing of benefits within an acceptable price point using the marketing mix elements. Price, however, is the only element of the marketing mix that directly produces revenue for the company. The other elements are considered costs to the organization. Another way to think of price as differing from the other elements is to understand the price not only creates perceived value for the customer but also harvests monetary value for the company. Because price is the revenue-generating element of the marketing mix, it is vital that marketers set the right price both to match buyer perceptions and to maximize company profits. Profit is determined by subtracting total expenses from total revenue.

The Profit Equation

Recall that the goal of any for-profit company is to make a profit. The price marketers set for goods and services offered will have a direct impact on the company's profit-making ability. Therefore, the price set must be one that achieves value not only for the buyer but also for the company. Certainly, buyers would prefer a lower price—or even free—for goods and services. It's simply not feasible for a company to give its products and services away for free; the company would cease to exist very quickly, which does not serve either the company or the buyer well. Rather, it is in the company's interest to set prices that create value for the buyer and profit maximization for the company, as this gives the organization the best chance of continuing to create value in the long term.

So what is the best price that creates value for the seller? In short, it's the one that creates value for the buyer while simultaneously generating the maximum profit. If a price is set too high, the buyer may refuse to purchase because they do not see the value; in turn, the company loses out on profit. Alternatively, if the price is set too low, the company may lose out on profits when a buyer would be willing to pay a higher price.

Profit is the financial gain of a company, or the difference between the amount earned and the amount spent in buying, operating, or producing something. It is the difference between total revenue and total costs and is calculated with the profit equation.

$$\text{Profit} = \text{Total Revenue} - \text{Total Costs}$$

Let's look at this formula more closely.

- Total revenue is the money generated from normal business operations. It is calculated by the sales price of a product times the quantity of units sold. For example, a company selling wireless earbuds for $19.99 that has sold 5,000 units in one period has revenues of $99,950.
- Total costs of a company are the costs of sales and operating expenses. It is all expenses related to operating the business that are directly related to producing a good or service and indirectly related to producing goods and services. In other words, it includes items such as building leases, employee salaries, and electricity, as well as direct costs in producing the product, such as parts and equipment.

  Total costs can be categorized as either fixed or variable. Fixed costs are those expenses that do not change regardless of the number of units sold. For example, if the company selling wireless earbuds makes one unit or one million units, the company still has to pay the mortgage for the building it is occupying; the mortgage payment does not increase or decrease based on the number of units produced. Alternatively, variable costs do change based on the number of units produced. In the wireless earbud example, the company would spend more per unit if it ordered fewer units. If it ordered a higher quantity of units, the unit price would decrease.

In determining profit, the total costs include both the fixed and variable costs. The formula is

$$\text{Total Costs} = \text{Fixed Costs} + \text{Variable Costs}$$

When setting prices, the marketer must determine how much profit can be made from the sale of goods and services. However, as mentioned earlier, profit is not the only deciding factor in price. Much research has been done on how psychology also affects the perception of pricing.

The Psychology of Pricing

From a marketer's standpoint, these are all factors that must be considered when setting price. In addition to the value perceived by the buyer, the marketer must also understand other psychological factors that influence the buyer's perception of price. Several psychological pricing examples are discussed next.

Price Anchoring

When Steve Jobs introduced the Apple iPad during a Keynote in 2010, he showed off the high-resolution screen and talked about its revolutionary features. "What should we price it at?" he asked. "If you listen to the pundits, we're going to price it at under $1,000, which is code for $999." He put a giant $999 on the screen. He said, "I am thrilled to announce to you that iPad pricing starts not at $999, but at just $499." The screen then showed the $999 price being crushed with the $499 price (Jobs, 2010). The crowd went wild!

The concept of price anchoring relies on the first piece of information a buyer sees. This acts as an anchor, or a frame of reference for what the buyer expects a price to be. Steve Jobs used this concept in his introduction of the iPad. The anchor price he quoted was $999. This immediately made buyers believe the product should be priced around $999. However, when Jobs showed the actual price, starting at $499, the buyers immediately believed, psychologically, that it was a great deal. Viewers did not know what the worth of the iPad was; they just believed they were saving nearly $500 by having the initial anchor of $999.

Artificial Time Constraints

Marketers—particularly retailers—often use the psychological strategy of artificial time constraints. These trigger a sense of urgency in the buyer; if they don't buy today, they'll miss out on a great deal. Whereas a consumer may have been on the fence about spending money, these artificial time constraints act as a catalyst for consumers to spend money right now. And there is a lot of power in artificial constraints: consumers are afraid of missing out and don't want to later regret not buying. But consumers can often find the same prices many times throughout the year because retailers use this tactic frequently.

Price Appearance

A study on the effects of auditory representation in pricing showed that buyers believed $1,555.83 was a very complicated price and difficult to comprehend quickly. The study further outlined that a price of $1,555 (no cents) was *better* but that buyers were able to more easily and quickly comprehend a price of $1555 (no commas) and thus more likely to pause and consider the product (Coulter, Choi, & Monroe, 2012).

If you've ever gone to a fancy restaurant, you may have noticed the prices on the menu are in a small font and don't have zeros at the end. The price will be listed as $29 instead of $29.00. Psychologically, longer prices appear more expensive because they take longer to read. This effect is augmented by the use of a dollar sign. Similarly, using prices with multiple syllables seems more expensive because consumers pronounce the prices in their heads. In short, the longer it takes to read and pronounce, the more impact the buyer believes it has on their wallet, which is explained by price appearance (Yu, 2021).

Price Gouging

Price gouging occurs when companies or individuals take advantage of a situation, typically an emergency or natural disaster, and charge exceptionally high prices for products or services. In some states, like New York, it's illegal for businesses to price gouge during a state of emergency (NYC Department of Consumer and Worker Protection, 2022). In fact, New York was the first state to enact a price gouging law. In 1978, when there was a shortage of oil for heating in the winter and the lives of young and elderly people were threatened, the state created a law where companies could not sell goods or services at excessive prices (Ondeck et al., 2020).

Can you think of recent examples where price gouging was a potential concern? During the COVID-19 pandemic, several states posted on their government websites lists of items that couldn't be subject to price gouging. Currently, the U.S. Department of Justice provides a list of items that can't be hoarded or subject to price gouging due to COVID-19 precautions, including masks and other personal protective equipment (PPE), respirators, ventilators, and medical gowns (U.S. Department of Justice, 2022). There have been other instances where price gouging was an issue. According to AccuWeather, "some of the most rampant examples of price gouging came during the most destructive storms in recent years, such as Hurricane Katrina, Hurricane Sandy, Hurricane

Harvey, and Hurricane Irma" (Puleo, 2019). After Hurricane Katrina, a hotel manager boosted room prices and was sentenced to five years in jail (Puleo, 2019).

Careers In Marketing: Pricing Analyst

A pricing analyst studies the market and analyzes data to determine the best pricing for products. This article from Zippia provides helpful information about the job role, including qualifications, career paths, salary, education, resume templates, and online courses to improve skills. Indeed.com also provides a thorough job description that outlines top duties and qualifications.

The best way to understand the core of any job is to learn from people who have done the job. Watch this video from a pricing analyst who discusses his career.



Also check out this article on what makes a great pricing analyst. Some people wonder how a pricing analyst and a data analyst differ. Learn the answer to that question in this article.

Once you've determined this may be the career for you, prepare for an interview by watching this video.



Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

You receive an email from your favorite clothing store. It is having a one-day sale where everything is 50 percent off. The retailer is using a form of psychology known as _____.

a. artificial time constraint
b. price appearance
c. profit
d. fixed costs

2.

Which of the following best describes the profit equation?

a. Profit = Fixed Costs – Variable Costs
b. Profit = Total Costs – Total Revenue
c. Profit = Total Revenue – Total Costs
d. Profit = Fixed Costs + Variable Costs

3.

Marquis has decided to purchase a new kitchen table. He looks at various brands online and decides to purchase one that is $500 more than the others because it is a brand his parents had when he was growing up and they offer free delivery. These factors indicate Marquis has perceived _____ in the higher-priced table.

a. value
b. artificial time constraints
c. costs
d. profit

4.

Kilee sees an advertisement for a new computer. The advertisement portrays an initial price of $699 that has a large red "X" through it with a new price of $499. The advertisement is utilizing which pricing concept?

a. Artificial time constraints
b. Price appearance
c. Price gouging
d. Price anchoring

5.

The perception of a buyer's value includes which of the following?

a. Profit a company can expect from sales
b. Perceived benefits less the perceived costs associated with a purchase
c. Revenue expected from a sale
d. Costs of manufacturing the product

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10.3: The Five Critical Cs of Pricing

Learning Objectives

By the end of this section, you will be able to

- List the five critical Cs of pricing.
- Characterize the five critical Cs of pricing.

Cost

What should you charge for a product or service? As you've probably discovered by now, pricing is not something that marketers approach without a lot of research. Using the five critical Cs of pricing can help to determine the *best* price—one that provides optimal value to the buyer and profit maximization for the company. Figure 10.3 illustrates the five critical Cs to consider when pricing: cost, customers, channels of distribution, competition, and compatibility.



Figure 10.3 The Five Critical Cs of Pricing (CC BY 4.0; Rice University & OpenStax)

Cost is the most obvious element of the pricing decisions. As we've already discussed, you must know the cost of doing business—both fixed and variable—before you can set an adequate price. However, cost alone cannot be the only basis on which a pricing decision is made. After all, buyers never know (and don't care) how much it costs a business to produce its goods and services.

Link to Learning: The Five Critical Cs of Pricing

Scale Finance has provided an excellent article that may help you get your mind around the five Cs of pricing.

Customers

Customers are another key element to pricing decisions, as you've learned already in this chapter. Marketers must determine not only what customers expect a product or service to be priced at but also what those customers are willing to pay. Toyota manufactures cars and markets them toward the middle class. Through research, it has determined what its target market is willing and able to pay for a particular vehicle. Alternatively, Lexus, which is marketed as more of a luxury car, has a higher price point and is marketed to a different market than Toyota's.

Channels of Distribution

Many products are sold through channels of distribution—intermediaries who move products from manufacturer to end users. Intermediaries affect the prices of products because they also need to maximize their profits. Therefore, pricing decisions must consider profits, expenses, and the value they add to the product or service.

IKEA began as a mail-order catalog in 1953 in Älmhult, Sweden. Today, it is a global home furnishings brand that focuses on sustainability (IKEA, 2022). Its distribution channel consists of the manufacturer, dealer, wholesaler, and retailer. Each of these channel members is in business to make a profit. Therefore, the price strategy that IKEA utilizes must help to ensure that each member is financially satisfied while making a profit itself and keeping a price that is of value to the end-user. If any channel members (or end-users) do not find value in the price set by IKEA, the entire channel becomes weak and unsustainable.

Link to Learning: IKEA

IKEA is a very interesting company to study when learning about marketing and business. As this blog examines, it has 1,600 suppliers for manufacturing products that deliver to 186 global stores. That's a complex—and successful—system!

The MBA Skool website explains the IKEA marketing strategy and the four Ps, including IKEA's distribution model.

The Contact Pigeon blog outlines IKEA's strategy that made it the successful company it is today.

Competition

Every company and product faces competition. Even the most unique products are competing for buyer dollars. Buyers' perception of one product compared with alternatives has an important impact on pricing decisions. Gazelle Bikes is a top-tier manufacturer of bicycles. The bikes offered by Gazelle have a starting price point of $1,499 (Gazelle, 2022). One of Gazelle's competitors, Giant, has a starting price point of $1,720 (Liv, 2022). For bicycle enthusiasts, these price points are important when comparing one brand with another; an enthusiast who comes across a new brand of bicycles with a starting price of just $200 would not position it with Gazelle and Giant bicycles.

Compatibility

Panama City Beach has been one of the most popular spring break destinations of college students for decades. In fact, it is considered the "Spring Break Capital of the World" (PCBeach Spring Break.com, 2022). It is well-known for its late-night parties, concerts, and celebrity sightings. Hotels and clubs along the beach of Panama City drive their marketing efforts toward this market segment: college-aged spring break-goers. The prices they set for the weeks of spring break are compatible with both this segment of the market's ability to pay and the businesses' profitability. Conversely, hotels in areas of Florida that are more family-friendly set prices that are considered a value for families and promote the hotels toward families rather than college-aged partygoers.

Pricing decisions are not made in a vacuum. When marketers set a price for a good or service, it must be consistent with the other marketing objectives. Imagine if McDonald's started offering a $20.00 ribeye steak. This decision would be inconsistent with the marketing of the company's low-priced fast food, would be confusing to customers, and thus would not be successful (Scalefinance.com, 2022).

Marketing in Practice: The Five Cs of Pricing

The five Cs of pricing have long been a standard for marketing practitioners. However, some practitioners also consider another area when determining price: context. Context refers to a more complex pricing strategy where marketers set—and change—prices according to variables external to the company. For example, an ice cream truck in the U.S. Midwest would

arguably have more traffic during the peak summer hours and less during the colder winter months. The owner of the ice cream truck would change their prices to best fit the context (in this case, weather). The product (ice cream) remains the same regardless of the price, but the price is changed to fit the context of the situation. The appropriateness of using this strategy depends on several factors, including the product category, market size, and other industry nuances.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Which of the critical Cs of pricing includes taking into consideration the value of the product to retailers and suppliers?

a. Cost
b. Competition
c. Channels of distribution
d. Customers

2.

Amir is the head of marketing and is explaining to colleagues that the company's new boutique bed and breakfast near the ocean should not be priced similarly to the local Super 8 motel. Amir explains that the new bed and breakfast is of the highest quality, has posh amenities, and is therefore being marketed to upper- and upper-middle-class couples. Amir is explaining which of the critical Cs of pricing?

a. Cost
b. Competition
c. Customer
d. Compatibility

3.

Kevin is a marketing intern at a large corporation. He is tasked with presenting a price for a new service the company will be offering. Which of the following would you recommend Kevin do first?

a. Analyze the critical Cs of pricing
b. Choose a pricing strategy
c. Create an advertisement
d. Ask his friends what price they would be willing to pay

4.

Which of the following statements is false with regard to pricing?

a. Customers are interested in the price of the product, not the cost to a company.
b. Cost only includes the materials needed to produce a product.
c. If cost is not considered in pricing, the company will likely be unsuccessful.
d. Costs include both variable and fixed costs.

5.

Which of the following is not a critical C of pricing?

a. Customers
b. Cost
c. Competition
d. Commitment

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10.4: The Five-Step Procedure for Establishing Pricing Policy

Learning Objectives

By the end of this section, you will be able to

- List the five-step procedure for establishing pricing policy.
- Describe ways to determine the pricing objective.
- Identify ways to estimate demand.
- List ways to estimate costs.
- Explain how to analyze the external environment.
- Discuss selecting pricing strategies or tactics.

Determine Pricing Objectives

Whether a product is new to the market or established, marketers face the challenge of setting prices. Recall that the main objective for pricing is for the buyer to perceive value in the product while the company maximizes profits. Marketers often use a five-step approach for establishing pricing policies (see Figure 10.4).



Figure 10.4 The Five-Step Process for Establishing Pricing Policies (CC BY 4.0; Rice University & OpenStax)

During the first step in establishing pricing policies, the marketing team will set the pricing objectives (see Table 10.1). The most common pricing objectives are based on customer value, cost, sales orientation, market share, target return, competition, and being customer-driven. It is not uncommon for more than one objective to be set within the company. Let's take a look at each of the pricing objectives in more detail.

Pricing Objectives

Objective	Description
Customer value	Based on a product's added value
Cost	Based on the cost to produce a product
Sales orientation	Developed to boost sales volume(s) of a product
Market share	Focused on increasing market share
Target return	Focused on a specific profit at a specific time
Competition	Developed based on competitors' prices
Customer-driven	Focus on what the customer is willing to pay

Table 10.1 Pricing Objectives

Customer Value-Based Objective

As you've already learned, it's essential to have a deep understanding of the value a product will provide for customers. Before Jim Semick and his team launched GoToMeeting, a conferencing app, they developed the pricing of $49 "all you can meet flat-rate pricing." This pricing was unique to the industry, and Semick stated that they determined this pricing structure based on dozens of interviews with potential customers. From these interviews, the GoToMeeting team discovered key areas that would provide value to customers not only through the product itself but also through the flat-rate price structure that was easy to understand (Semick,

2015). Semick utilized the customer value–based objective, one in which the company understands the value-added benefits of a product and sets its price accordingly.

Cost-Based Objective

A fairly simple way to price products and services is to use the cost-based objective. This pricing objective sets prices based on the costs of doing business, which were explained earlier in the chapter. The biggest pitfall of utilizing this pricing objective is that it might not align well with the customer's value perception. Remember, customers don't know (or care) what the cost of doing business is, so long as they receive value in their purchase. Therefore, marketers run the risk of overpricing the product. Marketers using this objective also risk pricing their products too low and failing to maximize profits.

Consider the manufacturing of a smartphone. Assume the total cost to the manufacturer to produce one smartphone is $3,000. This cost includes all expenses to the company for producing this one smartphone (product costs, variable and fixed expenses). According to Bhasin (2021), the company chooses to set the selling price of this smartphone to include these costs plus a profit of 10 percent, which sets the final price at $\$3,300\,(3,000 + 10\% \times 3,000)$

Sales-Oriented Objective

A company may wish to seek a boost in the sales volume of a product. In this case, marketers would choose the sales-oriented objective. The goal of a sales-oriented objective is to increase the volume, or units sold, of a product against the company's sales over a period of time. This objective is achieved by raising or lowering prices to increase sales. An increase in sales assumes a direct impact on profits, thus maximizing profits. Consider the smartphone manufacturer again. Executives have set a sales goal of 1,000 units within the first quarter. Marketers may choose to lower the price of the smartphone to meet the goal. So perhaps the company changes the price from $3,300 to $3,100 for a short period until the sales goal is reached. Note that the company is still covering the cost of manufacturing the product and still making some profit.

Market Share–Oriented Objective

A market share–oriented objective is one in which the company's pricing objective is to set prices based on those of the competition. This strategy involves comparing similar products offered in the market and pricing at, below, or above those prices depending on the products offered. The cell phone market is one example of an industry that leans on market share orientation. The biggest suppliers of cell phones—Apple, Google, and Samsung —take their pricing cues from one another and are priced very similarly (Campbell, 2020).

Target Return Objective

A target return objective is one in which marketers calculate the price so that it returns a specific profit in a given period. Suppose a company has invested $1 million into a new product. Company executives wish to recuperate 10% of those costs in year one of sales. If it costs the company $2 to manufacture one unit of product and marketers estimate that it will sell 50,000 products in the first year, marketers know they will need to price the product high enough to yield the desired results. The obvious drawback to this objective is that much of the decision is based on estimations of units sold in a given time frame.

Competition Objective

A competition-based objective, as its name suggests, is when a company sets its prices according to the prices of its competitors. Amazon often uses this pricing objective for some of its most popular products. Using data intelligence, the company gathers the prices of its competitors' products and sets its prices just below the price set by competitors (Prisync, 2018).

Customer-Driven Objective

Some companies choose to set prices based on customer-driven objectives—what the customer is willing to pay for a product or service. Auctions, e-trades, and bids are common examples of customer-driven objectives. eBay, for example, allows a company (or individual) to place an item for sale on its website. The interested buyer will often bid on the item, thus stating what they are willing to pay. The highest bidder is then able to buy the product.

Estimate Demand

After setting the pricing objectives, marketers will estimate the product or service demand. Demand is an economic term that refers to the buyer's desire and willingness to purchase a product or service at various prices. All other factors being consistent, a price

increase will result in a decrease in demand. The demand curve is a visual representation to understand demand.

Understanding the Demand Curve

The demand curve is a graph that shows how the demand for a product or service varies with the change in price. As you can see from Figure 10.5, the price (p) is located on the vertical axis, and the quantity (q) demanded is located on the horizontal axis. As the price of a product increases, demand for the product decreases.

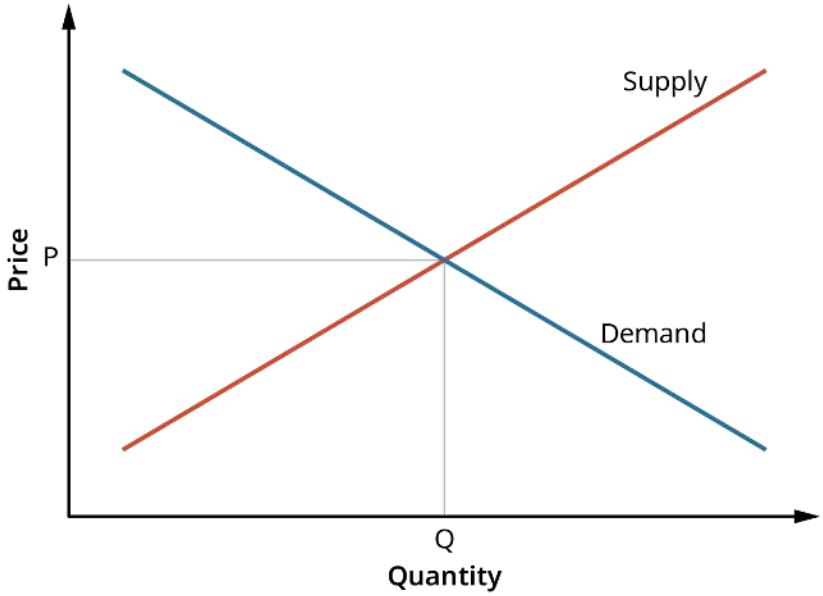


Figure 10.5 Demand Curve (CC BY 4.0; Rice University & OpenStax)

The relationship between price and demand shown in the figure above is contingent on certain conditions remaining constant. Such conditions include substitute goods, personal income, and consumer tastes, which are further discussed below. Changes in these conditions can cause a change in demand that might not follow this basic concept of the demand curve.

The Demand Curve for Prestige Products

One pricing strategy that negates the demand curve is prestige pricing. Prestige pricing is a strategy that marketers use to set high prices, knowing that demand will increase with higher prices because the higher price increases the perceived value of the product. Prestige pricing is closely tied to brand image and appeals to buyers who see value in elevated status. Consider these brands of shoes. The Adidas Yeezy Boost 750 costs around $76 to produce but sometimes sells for over $1,000, while the D Rose 5 Boost costs around $43 and sells for around $100. So why the large price difference? The Yeezy Boost 750 pricing strategy is that of prestige pricing. The allure and exclusivity of the Yeezy Boost 750 allowed the company to price the shoes much higher (Fuchs, 2021).

Link to Learning: Prestige Pricing

In this article, HubSpot explores the pros and cons of prestige pricing and things to consider when implementing this strategy. Included are several prestige pricing examples such as the Adidas Yeezy Boost and the D Rose 5 Boost, as well as diamonds, cars, AirPods, and T-shirts.

Demand Elasticity

What will the impact of demand for a product be if the price is changed? If the product is discounted, will demand increase? If the price goes up, will demand decrease? The concept of demand elasticity helps marketers answer these questions. In short, demand elasticity is a measure of the change in the quantity demanded in relation to the change in its price. Mathematically, it is derived from the percentage change in quantity demanded divided by the percentage change in price. If you have been considering buying a new home, would the prices of homes sway your decision? Perhaps so. Home prices are considered elastic because the price greatly

impacts the demand for new homes. Additionally, there are many options for housing, including apartments, roommates, living with relatives, condos, etc. (Hall, 2022).

As a second example, consider gasoline. Because we need gasoline to get to work, school, the grocery store, and meetups with friends, it is considered relatively inelastic. There are very few substitutes for gasoline. Because gasoline has inelastic demand, the price may fluctuate considerably, but the demand for gasoline remains relatively the same. Consider the higher gas prices of 2022, averaging over $5.00/gallon across the United States and even higher globally. Even though the prices have risen, the demand for gasoline has not changed because people still must travel to work and other essential places (Eitches & Crain, 2016).

In summary, if a product is determined to be inelastic, the demanded quantity does not change with a change in price. Conversely, if the product is elastic, the demanded quantity will change with a change in price. You might be asking: What makes a product elastic or inelastic? Several factors help determine how elastic a product or service will be.

Factors in Demand Elasticity

When determining the demand elasticity of products and services, there are several factors to keep in mind. These include substitutes, the effect of income, time, and cross-elasticity of demand (see Figure 10.6). Let's explore each of these in depth.

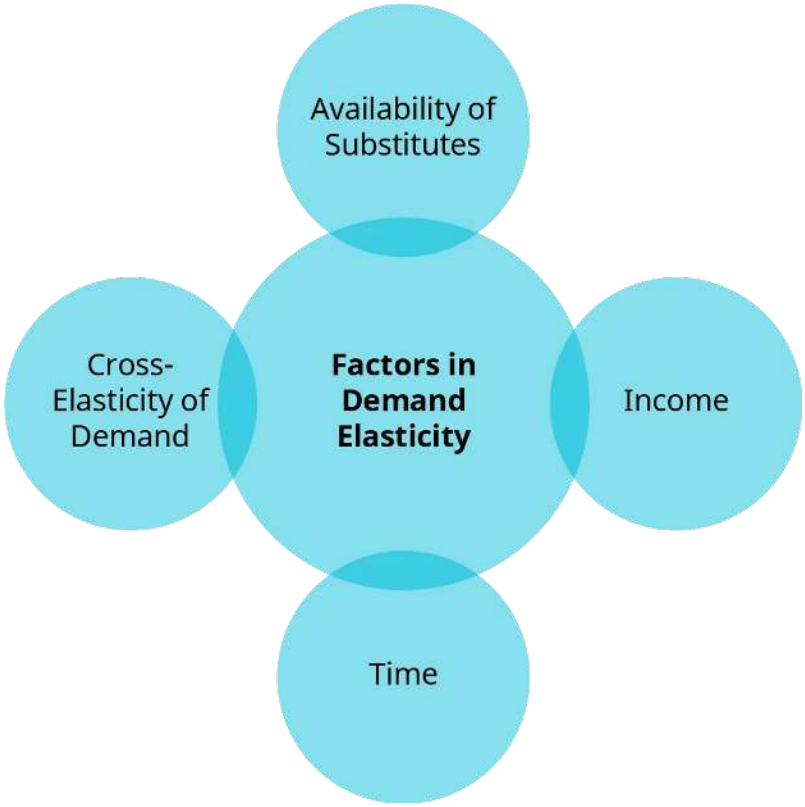


Figure 10.6 Factors in Demand Elasticity (CC BY 4.0; Rice University & OpenStax)

Availability of Substitutes

Substitutes are products and services that are similar to the one being offered. If a buyer can easily choose a different product when the prices change, the demand will be more elastic. For example, if you normally buy English muffins at the grocery store but the store is out, you can easily purchase bagels instead. Conversely, if there are relatively few alternatives, demand will be more inelastic. Consider the generic need for gasoline. It is fairly inelastic. The availability of substitutes for car travel is inconvenient. However, the demand for gasoline at specific gas stations is considered elastic because buyers can choose the gas station they prefer based on price. If two gas stations are located within a convenient geographic region for the buyer, they will choose the station with lower prices.

Income

Buyers have limited money to spend on their needs and must decide how purchasing goods and services will impact their total income. The income effect is how buyers see the change in price affecting their real income. Generally, a price increase indicates that the buyer will have less money left over to spend; therefore, they will choose to buy less of a product, decreasing demand. The opposite is also true: the lower the price, the more money buyers have to buy more of the product, thus increasing demand. Consider the 8.6% inflation the United States saw between May 2021 and May 2022. Because inflation is a general rise in prices, consumers noticed that their purchases of goods and services caused their real income to decline. In other words, consumers had less money to spend on products and ultimately chose to purchase less.

Time

When the price of a good or service is changed, it takes time for buyers to adjust to the change in price. The time factor of price elasticity indicates that the product's elasticity of demand is dependent upon the time it takes buyers to adjust to the new prices. For example, if there is a sharp decrease in the price of automobiles, buyers would not immediately go out and buy a new vehicle. Rather, it would take some time to save money for a down payment, secure a loan, and generally go through the buying process. Therefore, the demand for automobiles would increase but over time rather than immediately.

Cross-Elasticity of Demand

What happens when one of two similar products has a price increase or decrease? If the price of coffee increases, it would be expected that the demand for tea (a substitute product) would also increase. Buyers see the price increase and look for lower-priced substitutes to replace the higher-priced item. The cross-elasticity of demand measures the amount demanded for one good when the price for a similar good or service changes (Hayes, 2022).

Estimate Costs

The next step in determining a pricing policy is to estimate the total cost of producing a product or service. Recall that maximizing profits is the goal of a pricing strategy and marketers must factor the cost of doing business into pricing considerations. When estimating total costs, it is important to divide costs into fixed and variable costs.

Fixed and Variable Costs

As mentioned earlier in this chapter, costs are categorized as either fixed or variable. Fixed costs are those expenses that do not change regardless of the number of units sold. Consider the example used earlier in the chapter of manufacturing a smartphone. If the company manufactures 1,000 or 100,000 smartphones, it must pay the same amount for its lease on the property on which the plant is located. The lease payment does not change based on the number of units produced. Alternatively, variable costs do change based on the number of units produced. In this example, the amount manufacturing spends depends on the number of smartphones produced.

Analyze the External Environment

The fourth step in determining prices is to analyze the external environment. The external environment comprises factors outside of the organization that impact marketing decisions. While marketers cannot directly change these factors, they should know how they might impact pricing decisions.

One way to remember the external environment factors is through the acronym PESTLE: political, economic, social, technological, legal, and environmental (Aguilar, 1967). Questions to consider in a PESTLE analysis when analyzing the external environment as it relates to pricing are included in Table 10.2.

PESTLE Factors

Factors	Question	Example
Political	What is the current political situation as it relates to the market?	A price cap on certain pharmaceuticals would limit the price a company could charge.
Economic	What is the current economic climate?	During inflation or deflation, prices may need to increase or decrease.
Social	How is culture changing or shaping the industry?	During the latter months of the year, the Indian market purchases more vehicles than at other times of the year.
Technological	What technologies are trending?	If a product's technology is becoming obsolete, a price decrease may be necessary.
Legal	What current legislation is impacting the industry?	A new vehicle emission law may require new technology, thus increasing the price of vehicles.
Environmental	What are the environmental concerns of the product?	A highly toxic product or process may need a higher price to properly and safely dispose of byproducts.

Table 10.2 PESTLE Factors

Link to Learning: PESTLE Analysis

Hundreds of online resources discuss PESTLE. Here are a few to start with:

- The Corporate Finance Institute provides a PESTLE walk-through.
- The Oxford College of Marketing outlines the advantages and disadvantages of a PESTLE analysis.
- Business-to-you provides a video, sample analysis, and a full list of PESTLE factors.

Competitors' Costs, Prices, and Products

It probably seems obvious by now that analyzing the competition is key in setting prices. Marketers must constantly analyze current and potential market competition to understand how their products will measure up to that of the competition. If a competitor is planning to introduce a nearly identical product to one that your organization already has on the market—but at a much lower price—you will need to consider how that will affect your sales and analyze how it is offering such a lower price. Should you lower your price? Consider changing suppliers for lowered costs? Take a cut in profits to stay competitive? All of these questions, and more, will help you as a marketer determine what pricing strategy should be used.

Stage in the Product Life Cycle

How long a product—and its substitutes—have been in the market will impact the marketer's choice of pricing strategies. Recall that the product life cycle consists of four stages: introduction, growth, maturity, and decline. During the introduction stage, marketers must choose pricing strategies wisely to capture the intended market and begin recuperating research and development costs. As a product moves through the other stages of the life cycle, prices may need to be changed to stay relevant to consumers.

Status of the Economy

As you can imagine, the state of the economy at any given time will impact the buyer's ability to purchase products and their willingness to spend. Marketers should be aware of economic factors when considering demand for products, including employment, inflation, interest rates, and consumer confidence (Maverick, 2022).

One of the main factors that influences consumer demand is the employment rate. The unemployment rate is a measure of the number of people who are not employed but are actively seeking work in a given period—usually one month. When employed and

receiving steady income, buyers are more likely to use discretionary income. Discretionary income is the money left over after all taxes and necessities—such as food and housing—are paid. When discretionary income decreases, demand for nonessential items also decreases.

Inflation is an economic measure of the rate of rising prices of goods and services in an economy. When inflation occurs, prices for most goods and services rise. Therefore, a buyer's discretionary income decreases, and demand for nonessential goods and services also decreases. Consider the high inflation in the United States economy from 2021 to 2022, which was 8.6% as of May 2022 (U.S. Inflation Calculator, 2022). The inflation rate is currently the highest that it has been since 1981. Because of the higher price of goods and services within the economy, consumers spend more of their earned income on necessities such as food and shelter. This, in turn, causes them to purchase fewer nonessential items such as vacations, toys, and the like. Inflation also impacts pensions and other retirement accounts. Hence, as inflation rises considerably, people are even less likely to spend their discretionary income and more likely to save anything left over after essentials for future use (Amadeo, 2021).

Even consumers who do not have a deep understanding of the economy have some degree of optimism regarding the overall state of the economy. This is known as consumer confidence—it measures how optimistic consumers are about the economy and their own finances (The Conference Board, 2022). When consumers have little optimism in the economy, they are more likely to save their discretionary income than spend it.

The overall status of the economy—current and future—is important for marketers to be aware of as it directly impacts buyers' ability and willingness to spend money. Choosing pricing strategies that are aligned with the health of the economy will have a greater chance of success.

Select Pricing Strategies or Tactics

After gathering all the data explained in the previous steps, marketers are ready to set specific pricing strategies or tactics. The strategies and tactics chosen for a product or service should align with the other marketing mix elements, create customer value, and maximize company profits. In the next section, we will discuss specific strategies and tactics and how to optimize each.

Knowledge Check

It’s time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Sam is explaining to her friend Beth that prices for video conferencing software are increasing because more people are working from home. This relationship can be described by _____.

a. prestige pricing
b. customer-driven pricing
c. the demand curve
d. the income effect

2.

Each month, you pay your rent. It is $800 and does not change based on the number of hours you work. This is known as a _____.

a. variable cost
b. fixed cost
c. changing cost
d. profit

3.

Decreased prices are most often associated with which stage of the product life cycle?

a. Introduction
b. Growth

c. Maturity
d. Decline

4.

Adding fixed costs to variable costs yields which of the following?

a. Total costs
b. Profit
c. Value
d. Inflation

5.

When the price of a product increases and the demand for its substitute product increases, this is explained by _____.

a. elasticity
b. inelasticity
c. a change in income
d. cross-elasticity of demand

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10.5: Pricing Strategies for New Products

Learning Objectives

By the end of this section, you will be able to

- List the pricing strategies for new products.
- Explain each pricing strategy for new products.

Price Skimming

When introducing a new product to the market, marketers often use one of three pricing strategies. Remember that when a company introduces a new product to the market, a lot of financial resources have already been used even before the first unit is sold. Therefore, marketers should choose an appropriate price that both appeals to buyers and helps to recuperate the costs of research and development so that the company can begin to maximize profits more quickly.

Price skimming is a new-product strategy in which marketers choose to initially set a high price for a product or service and lower it over time. The goal of price skimming is to attract the segment of the market that is willing to pay the highest possible price for the product. Once achieved, the price is lowered to attract another segment of the market and so on. The term *skimming* comes from the skimming the cream, layer by layer, from raw milk—or in this case, each segment of customers.

Innovative technology often uses price skimming. For example, when Sony launched the PlayStation 3, it was set at a fairly high price of $599. With little competition and a well-established brand, it was successful. Each year thereafter, it lowered the price—and gained new customers—until it eventually reached a price of $299 (Sivakumar, 2021).

Market Penetration Pricing

The opposite of price skimming is penetration pricing. The penetration pricing strategy is one in which the new product or service is set at the lowest price possible. This strategy's objective is to penetrate the market, or gain as many customers in all segments as possible from the beginning of the product life cycle.

In the late 1990s, Netflix introduced its movie rental service. For a monthly subscription fee, users could rent four movies at a time with no return date. The low initial price targeted the most segments of the market and allowed customers to try the new service with little effort or financial impact.

Break-Even Pricing

Break-even pricing is a pricing strategy in which marketers choose a price that will cover all of the costs of manufacturing. The break-even point is when the number of units produced equals the revenue for the product. The break-even point will produce zero profit but will cover all associated costs.

The break-even formula is calculated by dividing the total fixed costs by the production unit price minus variable unit costs. The break-even point in units will tell a marketer exactly how many units must be sold in order to start making a profit.

$$\text{Break Even} = \frac{\text{Fixed Costs}}{(\text{Unit Price} - \text{Variable Unit Costs})}$$

Let's look at an example. Assume you are opening a new gourmet cookie shop and you have estimated your projected costs. You'd like to know how many units you must sell in order to break even and then start making a profit. Let's assume your fixed costs are $20,000. This includes rent, deliveries, ingredients, and new signage. You have estimated your variable costs to be $1.50 per unit, or cookie. You plan to charge $2.00 per cookie. How many units must you sell to break even? Using the formula above, you find that you must sell 40,000 cookies in order to break even.

$$\begin{aligned}\text{Break Even} &= \frac{\$20{,}000}{(\$2.00 - \$1.50)} \\ \text{Break Even} &= \frac{\$20{,}000}{(\$0.50)} \\ &= 40{,}000\end{aligned}$$

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Luis is planning to introduce a new product to the market. Their aim is to gain as much of the market share as possible in the early introduction stage, so they are thinking of setting an initially low price. Which pricing strategy is Luis using?

a. Break-even analysis
b. Price skimming
c. Penetration pricing
d. Psychological pricing

2.

Alexandra is working on the pricing strategy for her new food truck items. She is interested in knowing how many hamburgers she will need to sell in order to break even. Which formula should she use?

a. $\text{Fixed Costs} + \text{Variable Costs}$
That's not correct. It is not the break-even formula.
b. $\text{Fixed Costs} - \text{Variable Costs}$
That's not correct. It is not the break-even formula.
c. $\text{Fixed Costs}/(\text{Unit Price} + \text{Variable Unit Cost})$
That's not correct. It is not the break-even formula.
d. $\text{Fixed Costs}/(\text{Unit Price} - \text{Variable Unit Cost})$
The break-even unit formula is Fixed Costs / (Unit Price + Variable Unit Cost)

3.

Tomas is selling his bottled sodas for $2.00 each at the vendor fair. His fixed costs are $100. He estimates that his variable costs are $0.25 per bottle. How many bottles of soda must Tomas sell to break even?

a. 57
b. 2
c. Less than 1
d. 25

4.

Which of the following is true of price skimming?

a. It captures the most market share in the introduction stage of a product.
b. It is setting an initially high price of a product.
c. It is setting an initially low price of a product.
d. It determines break-even units.

5.

David hopes to capture as much of the market as possible with the company's new product. Which pricing strategy should David use?

a. Price skimming
b. Cost-based pricing
c. Psychological pricing
d. Penetration pricing

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10.6: Pricing Strategies and Tactics for Existing Products

Learning Objectives

By the end of this section, you will be able to:

- List the pricing strategies and tactics for existing products.
- Provide examples of each pricing strategy and tactic.

Product Line Pricing

More often than not, marketers must make pricing decisions on existing products rather than new ones. As products go through the product life cycle, price changes will likely need to occur to maintain value for customers and continue to maximize profits. Some common strategies and tactics for existing products are discussed next.

Many large companies offer multiple products and product lines in their product mix. One strategy for pricing products is to price products in a product line the same or similar. For example, Unilever is the manufacturer of many brands that you've likely heard of: Dove, Axe, and Hellman's, to name a few. Within its host of products, Unilever has divided its products into price categories; higher priced items have a higher perception of value and so on. (Recall that a product line is a group of related products differentiated by features and price.) Unilever sets a higher price for some of its product lines and lower price points for others to capture various target markets, known as product line pricing (see Figure 10.7).



Figure 10.7 Companies utilize pricing strategies like product line pricing to appeal to various target markets through multiple products. (credit: "d2590-1" by Stephen Ausmus/USDA/flickr, CC BY 2.0)

Captive Product Pricing

Assume you need to purchase a new printer for your home computer. Once you buy the printer, you will also need to purchase what? That's right, ink. Captive product pricing uses a strategy that requires both a core and a captive product. In the above example, the core product is the printer and the captive product is the ink. When you are shopping for the printer, you are likely to take into consideration the price you will have to pay for ink as well. Marketers may price the printer at a very reasonable price, knowing it will catch your attention and thus make the price of the ink seem less expensive. Captive product pricing maximizes profits by intentionally pricing both the core and captive products at a level that will increase the perceived value to consumers.

Bundle Pricing

Bundle pricing is another popular strategy marketers use to promote purchasing multiple products at once. Consider when you go to the drive-through at your favorite fast-food establishment. Ever notice that it is cheaper or nearly so to purchase a "meal" than each item individually? Have you ever gone to the drive-through intending to get a cheeseburger but feel compelled to get the value meal instead because it only costs a little more? This strategy is used to prod customers to purchase (and spend) more than they may have otherwise.

Psychological Pricing (Odd/Even Pricing)

One popular form of psychological pricing is odd-even pricing. Similar to price appearance discussed earlier in this chapter, odd-even pricing banks on human motivation to lure in customers. The “odd” in this pricing tactic refers to the odd number at the end of a price, such as $19.95. Psychologically, the odd number in the price equates to value: the product is not $20.00 but is still in the “teens” at $19.95. Conversely, the “even” in the tactic utilizes even numbers at the end of the price, often zero, as in $50.00. This pricing tactic leads buyers to believe the product is of higher quality because it is a nice, even number. Luxury items are often priced using the “even” side of odd-even pricing.

Ever wonder how odd-even pricing got its start? Decades ago, retailers began using this pricing strategy not to lure customers but to force cashiers to open their cash register drawers to make change—and thus record the sale. Over time, consumer psychologists studied the impact of odd-even pricing on consumption and found it to work!

Economy Pricing

When you are grocery shopping, are you surprised that name-brand products are priced much higher than store brands even though the product is essentially the same? Does the name brand really cost that much more to produce? Well, yes and no. Brand-name items spend considerably more on advertising than store brands. To recoup those costs (and based on the fact that name brands have a higher value perception to buyers), companies set prices higher for name brands. Economy pricing, on the other hand, is a tactic in which store brand prices are set much lower than their name-brand competitors. The focus on these products is selling in high volume by lowering prices and minimizing advertising costs.

Another example of economy pricing is used in the airline industry. Allegiant Air strives to offer no-frills air travel priced considerably lower than its competitors. But you have to get your seats fast at the lowest prices because the price increases as seats fill up. Oh, and if you want to travel with any luggage, you’ll need to pay extra; Allegiant charges for any luggage other than one personal item.

Knowledge Check

It’s time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

You are considering purchasing cable for your new apartment. You would really like to add HBO to your cable plan so you can watch some of the shows all your friends are talking about. You can purchase basic cable for $49.99 per month and add HBO for an additional $12.99 per month as a standalone addition. Alternatively, you can choose a package that includes HBO for $59.99. Obviously, you will choose the less expensive package. The cable company is using which of the following pricing tactics?

a. Product line pricing
b. Odd-even pricing
c. Bundle pricing
d. Economy pricing

2.

Finley was tasked with setting the price of a new coffee maker that would utilize coffee pods instead of traditional coffee filters. Because customers would have to buy the pods to utilize the product, Finley should consider which pricing tactic?

a. Captive pricing
b. Odd-even pricing
c. Bundle pricing
d. Economy pricing

3.

Thames is shopping for a new pair of jeans. He notices that one brand is priced at $49.99, and another is priced at $50.00. He immediately chooses the pair priced at $50.00 because he believes they are better quality. Which pricing tactic was used to help Thames make his decision?

a. Odd-even pricing
b. Captive pricing
c. Bundle pricing
d. Economy pricing

4.

Which of the following is NOT considered a pricing tactic for existing products?

a. Odd-even pricing
b. Price skimming
c. Bundle pricing
d. Captive pricing

5.

Daphne often buys store or generic brand items at the grocery store because they are so much cheaper than name-brand items. Which pricing tactic is generally used for store or generic brands?

a. Bundle pricing
b. Cost-based pricing
c. Psychological pricing
d. Economy pricing

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10.7: Ethical Considerations in Pricing

Learning Objectives

By the end of this section, you will be able to

- Identify ethical issues related to the pricing of products and services.
- Describe the different types of unethical practices.

Price Fixing

Recall that *ethics* is defined as behaviors based on values and beliefs regarding right and wrong. In marketing, unethical behavior can have catastrophic consequences. If a customer's trust is broken with a product, their likelihood of continuing to do business with that company dramatically decreases. Companies practicing unethical behavior run the risk of not only losing customers and profits but also facing legal consequences. Let's explore some unethical (illegal) practices related to pricing.

Price fixing occurs when two or more competitors agree to set prices at a specific level. The practice of price fixing forces customers to pay higher prices than normal with no substitute alternatives. Consumers who purchased or leased certain automobiles were part of a class-action lawsuit involving several automobile manufactures. The brands, including Audi, BMW, Buick, Chevrolet, and many others, agreed to pay into the settlement after being accused of conspiring to artificially inflate the prices of various auto parts (Top Class Actions, 2019).

Deceptive/Illegal Price Advertising

Deceptive price advertising is an unethical pricing practice in which the advertised price of a product is misleading to consumers. For example, let's assume a company advertised a product with a "suggested retail price" of $9.99 but is offering the same product for the "low price of only $4.99." If the same product is actually priced in a market in the same country for $9.99, it is not considered deceptive. However, if the product is not priced at $9.99 in any other market, it is considered deceptive.

Say you sell hats for $29.99, but sales are sluggish. You decided to offer your hats "buy one get one free," but just before the sale starts, you raise the price of one hat to $59.99. Is this deceptive price advertising? Yes. This is not a bargain for consumers and is considered deceptive, according to the Federal Trade Commission (FTC).

Predatory Pricing

Another unethical (and usually illegal) pricing strategy is predatory pricing. Predatory pricing occurs when a company prices goods or services so low that other companies cannot compete. Predatory pricing often entails a company selling products below its cost with the intent of driving out competition and creating a monopoly situation. Once competition is eliminated, the company will often increase the prices exponentially—not only to recuperate losses from the lower prices but also to make more profit. Under various antitrust laws, this practice is illegal when it seeks to drive out competition and makes a market susceptible to monopolies (Kenton, 2022). In 2000, Walmart was accused by the Wisconsin Department of Agriculture, Trade, and Consumer Protection of predatory pricing practices. The complaint stated that the company was selling staple goods such as butter and milk below cost with the goal of driving out competition and creating a monopoly (Mitchell, 2000). In short, predatory pricing undermines the free market, where supply and demand sets prices.

Price Discrimination

Price discrimination is a pricing strategy that charges different prices to customers based on what the seller believes it can get them to agree to. This pricing strategy is not illegal so long as it does not cause specific economic harm. But marketers should be wary of using this price tactic, as it could lead to disloyal customers if they feel they are not getting the best price.

Monopoly Gouging

Monopoly gouging is when a seller increases the prices of goods and services that are not considered fair or competitive. If there are no or very few substitutes, a company may be enticed to force buyers to pay a much higher price, leaving them no options. When there are few competitors in a market, such as utilities, the industry is highly regulated by the government. For example,

your electric company cannot choose to randomly increase prices to increase profits; it must follow a regulated process when increasing prices.

During the winter of 2020–2021, Texas experienced much colder and snowier conditions than usual. Millions were left without power, and dozens lost their lives. As hotels began to fill up, prices skyrocketed. A Super 8 motel was shown on Hotels.com at nearly $400/night, exponentially higher than in ordinary times. Identifying price gouging is a bit more complicated than it seems. While basic economics would expect higher demand to equal higher prices, the practice of price gouging is not only unethical but also illegal in many states when a disaster is announced (Compton, 2021).

Companies with a Conscience: Warby Parker

Warby Parker sought to solve the problem of expensive eyeglasses—a medical necessity for many people. The company stated that "the eyewear industry [was] dominated by a single company that has been able to keep prices artificially high while reaping huge profits from consumers who have no other options" (Warby Parker, 2022). Warby Parker set out to change how glasses were offered to consumers. The company's direct-to-consumer approach and a uniform pricing strategy have made waves in the eyewear industry.

All of Warby Parker's eyeglasses are not only priced lower than its competitors but are priced the same: $95. The average cost of eyewear was $263, making it difficult for some consumers to afford the needed glasses and making it difficult for people to distinguish the value between a $200 pair of glasses and a $400 pair of glasses (Knowledge@Wharton, 2013).

The company bypassed traditional supply chains and began making glasses in-house. It also talked directly to customers to understand the needs of the market and, in turn, has been able to offer prescription eyeglasses at a fraction of the cost. In addition, it saw a global problem: too many people need glasses but cannot afford them. That's why the company donates one pair of glasses for every pair sold.

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10.8: Chapter Summary

In this chapter, we explored the process of setting pricing for products and services and the importance of pricing to the profitability of a business. We defined fixed and variable costs and how they factor into the break-even equation in initial pricing decisions. Commonly used pricing objectives were defined as cost based, sales oriented, market share, and target return. These objectives are used to set a clear pricing strategy for both products and services.

The new-product pricing strategies of price skimming and penetration pricing were defined, explaining common practices used based on the product type and placement in the market. The psychology of pricing based on consumer buying habits was identified and defined. Techniques include odd-even pricing, prestige pricing, and artificial time constraints.

The final concept we covered was ethics in pricing and how the consumer can identify unethical and/or illegal pricing practices. Price fixing, deceptive/illegal pricing in advertising, price discrimination, and monopoly/price gouging were discussed as practices that are used in an effort to increase profits.

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10.9: Key Terms

artificial time constraints | pricing strategy that creates a sense of urgency in buyers' minds

break-even pricing | pricing strategy in which marketers choose a price that will cover all the costs of manufacturing

bundle pricing | pricing strategy that promotes purchasing multiple items at once; used to prod customers to purchase (and spend) more than they may have otherwise

competition-based objective | product pricing based on the prices of a company's competitors

consumer confidence | an economic indicator that measures the degree of optimism that consumers have regarding the overall state of the country's economy and their own financial situations

cost-based objective | product pricing based on the costs of doing business

cross-elasticity of demand | the change in price of one good or service as a similar good or service's price changes

customer value–based objective | product pricing based on a company's understanding of the value-added benefits of a product

customer-driven objective | product pricing based on what a customer is willing to pay for a product or service

deceptive price advertising | an unethical pricing practice in which the advertised price of a product is misleading to consumers

demand | a buyer's ability and willingness to purchase a specific product or service

demand curve | a graph that illustrates the relationship between demand and price

demand elasticity | measure of the change in the quantity demanded in relation to the change in its price

discretionary income | a household's money that is left over after all taxes and necessities are paid

economy pricing | setting a price much lower than competitors to sell high volumes of a product

fixed costs | costs of doing business that do not change based on number of units produced

income effect | the perception buyers have of how price changes will affect their income

inflation | an economic measure of the rate of rising prices of goods and services in an economy

market share–oriented objective | setting prices at, below, or above competitors in an effort to increase market share

monopoly gouging | when a seller increases the prices of goods and services that are not considered fair or competitive

odd-even pricing | psychological pricing strategy that uses prices that end with odd or even numbers to attract customers

penetration pricing | new product or service strategy that sets the lowest price possible in order to reach the majority of the market in the introduction stage

predatory pricing | when a company prices goods or services so low that other companies cannot compete

prestige pricing | a strategy marketers use to set high prices knowing that demand will increase with higher prices because the higher price increases the perceived value of the product

price | the exchange of something of value between a buyer and seller

price anchoring | a frame of reference for a buyer to set an expectation of a price

price appearance | the way in which a customer perceives a price based on how it is visually represented

price discrimination | selling goods and services at different prices to different customers

price fixing | two or more companies agreeing to set certain prices in the market

price gouging | when companies take advantage of a situation, typically an emergency or natural disaster, and charge exceptionally high prices for products or services

price skimming | pricing strategy in which a company initially sets a high price for a product or service and lowers it over time as new segments of the market are reached

product line pricing | setting a higher price for some product lines and lower price points for others in order to capture various target markets

profit | the financial gain of a company

sales-oriented objective | setting prices based on the goal of increasing the volume of sales

substitutes | products and services that are similar to the one being offered

target return objective | setting prices so they return a specific profit during a given period of time

total costs | total expenses of doing business

total revenue | the money generated from normal business operations

unemployment rate | measure of the number of people not employed in an economy during a given period of time

variable costs | costs that vary based on the number of units produced

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10.10: Applied Marketing Knowledge- Discussion Questions

1. Choose a mass retailer such as Walmart or Target and look at its weekly advertisement. You can do this online, in the store, or with a physical flyer. Identify and analyze the pricing strategies used. Apply what you have learned to the way you, personally, respond to those strategies.
2. Consider what products the penetration-price strategy and the price-skimming strategy work for. What are the advantages and disadvantages of these strategies?
3. Analyze the role pricing plays in strategic marketing.
4. Discuss with your family and friends what you have learned about pricing. Ask them how they respond to odd-even pricing, prestige pricing, and artificial time constraints. Note generational differences and possibly how family traditions can skew the answers.

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10.11: Critical Thinking Exercises

1. Compose a 150–200-word paragraph using all the following terms as they relate to pricing. The goal is to prove you understand the meaning of each term.

Terms to include:

- Unemployment
- Inflation
- Discretionary income
- Consumer confidence

2. Describe a break-even point and provide a mathematical example.

3. Pick one product that you would find at a grocery store, a mass merchandiser, and a convenience store. Now go to each of these stores and check the price of the product you selected. Note if the product is on sale or listed at its regular price.

- Are the prices consistent? Is one store higher or lower across the board? What would compel a consumer to pay higher prices for products when they can purchase them at a lower price?

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10.12: Building Your Personal Brand

One of the most important tasks you have in establishing your personal brand is how you are going to communicate your skill level and experience to others. Let's start by developing a 30-second elevator pitch about yourself. An elevator pitch is what you would say about yourself if you were in an elevator with someone and only had the time between floors to share your message. What is the most important thing you would want to share about yourself and your personal brand if you were in an elevator with a hiring manager at company you want to work for? Things to consider covering include a quick introduction, your unique value or skill that would want to make them hire you, and something engaging about yourself to help them remember you.

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10.13: What Do Marketers Do?

Using LinkedIn, find a pricing analyst. Reach out to them, introduce yourself, and let them know that you're a student wanting to know more about their job role. Then, schedule an interview. Questions you may want to ask include:

- What are your background and education, and what brought you to this job?
- What do you feel are the pros and cons of this job role?
- Share with me what a typical day, week, and year look like in this job role.
- How did COVID-19 impact your work?
- Did you see any new innovations adopted for pricing analysts because of the pandemic?What advice do you have for someone interested in pursuing this job?

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10.14: Closing Company Case

Naked Wines

Buying a good bottle of wine can be hit or miss. A consumer can pay a lot and not enjoy the wine or pay a little and really love the wine. As with any product, the price of a bottle of wine includes both fixed and variable costs. Some of those expenses include the costs of production, the raw materials including grapes, barrels, bottles, utilities, and labor. Other costs include administrative overhead, sales, and marketing costs (Hanni, n.d.).

Of course, distribution must be factored into the price of a bottle of wine. With an indirect distribution channel, wine often passes from the winemaker to a distributor, a wholesaler, and a retailer. Macro-environmental factors such as nature can affect pricing by affecting the grape supply, adding to the overall cost.

In addition to the obvious cost factors, there are psychological factors such as branding, exclusivity, and rating points. Wine rating points are awarded based on input from industry experts and wine critics. Bottles with higher ratings can generally command a higher price. In addition, a bottle with greater notoriety and awards will also be able to sell for significantly more than more obscure wines or those just starting out.

Breaking into the wine-making business can be incredibly challenging. All business start-ups face steep hurdles in the beginning stages. Wine-making may well have more sunk costs than a typical start-up. With grapes taking years to grow and reach their peak and the labor for harvesting, juicing, and fermenting, entering the wine-making business can quickly burn through start-up cash (Todorov, 2022).

Getting money from a bank to start a business means business plans, initial investment, proven experience, and endless paperwork that takes up valuable time that could be spent tending the grapes. And making a name for yourself in the wine industry can take years. How do you get consumers to choose and buy your wine from the thousands of labels available?

Enter Naked Wines. The company was founded as a way to help small, independent winemakers break into the wine business. Started in 2008, Naked Wines had a mission to give consumers great wines at significantly reduced prices and help winemakers get the funding needed to start their business (Nakedwines.com, 2024).

Naked Wines thought it could break into the wine business by allowing consumers to join as investors. When a customer buys from Naked Wines, they become an investor. Each month, investors purchase wine at a reduced cost from Naked Wines, which, in turn, invests in the winemakers it represents.

While the pricing is an advantage, investing in the winemakers provides a bigger advantage. Each month, investors get to choose which wines are delivered to them. The wines are carefully curated based on their wine preference profile and the ratings they provide to the winemakers on previous purchases.

The Naked Wines business model allows the winemakers to have access to funding and market research while the investors have access to great wines. As Naked Wines continues to grow from an initial start in the United Kingdom to operations in the United States, it continues to add winemakers and investors. Small winemakers who would otherwise not have had an opportunity to grow their business have found success and community through Naked Wines.

Case Questions

1. What are the psychological factors that affect the pricing of wine?
2. Name the five critical Cs of pricing evident in the Naked Wines pricing model.
3. What elements of the external environment are most evident in the pricing of a bottle of wine?
4. How might you best define the pricing strategy for Naked Wines?

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11.1: In the Spotlight

Have you ever had a great idea for a new food product? If so, do you have any idea where you would sell it to reach your target customers? Unlike traditional grocery retailers, Whole Foods specializes in selling high-quality natural and organic foods. Getting the green light to sell through its stores requires manufacturers to follow strict quality standards, including adherence to Whole Foods' banned ingredient list.



Figure 11.1 Marketers need to determine distribution strategies that get their products into the hands of consumers, like the partnership between Whole Foods and Outstanding Foods. (credit: modification of work "Whole Foods Market Full Middle Eastern Food Shelves" by Raed Mansour/flickr, CC BY 2.0)

Founders Dave Anderson and Bill Glaser of Outstanding Foods and maker of PigOut, a vegan, bacon-flavored chip snack, recognized that to reach vegans and non-vegans with a plant-based, bacon-flavored chip, they need to retail at outlets that would attract such consumers (BeyondBrands, 2022).

After testing their product, they opted for a nationwide launch and distribution strategy. Using a broker network, they selected distribution channels aligned with both natural and mainstream grocery stores. This strategy would help secure the national target market coverage they sought. The product strategy of natural ingredients gave Outstanding Foods the green light it needed to meet Whole Foods' strict food standards. Through their partnership, Whole Foods and Outstanding Foods can create and deliver value to their vegan customer base, which appreciates access to tasty food products that bring delight.

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11.2: The Use and Value of Marketing Channels

Learning Objectives

By the end of this section, you will be able to

- Describe the use of marketing channels.
- Identify the different types of marketing channels.
- Discuss how marketing intermediaries add value to products.

What Are Marketing Channels?

In addition to identifying ways to create value for consumers, marketers must also decide how to distribute market offerings. In this section, you'll explore the important role that marketing channels play in delivering value to targeted customers.

A marketing channel is a system of people, organizations, and activities that work together to make goods and services available to consumers to purchase. Along the marketing channel, ownership of these goods and services is transferred from one channel member to the next. The goal is to create and deliver value to the final consumer by distributing these goods and services. The final consumer is the end user of a good or service. It includes grocery store shoppers, movie stream viewers, app users, vacation-takers, and more.

Link to Learning: Distribution

To learn more about how the distribution of products works and the decisions marketers must consider when choosing the right marketing channel, watch the Channels of Distribution in Marketing: 8 Distribution Channels to Consider video.



Marketing Channels (Distribution Channels) Defined

It's not enough for companies to create, price, and promote products and services that deliver value. A company must also decide where and how consumers can access and purchase the company's market offering. Market offerings can include tangible goods, services, experiences, digital products, ideas, and information. All market offerings require a marketing or distribution channel to reach consumers.

Think of a channel like a stream or a river that carries a market offering to the consumer. Distribution describes how a company makes its market offering accessible for purchase. Local companies that sell to a smaller, more geographically concentrated set of consumers have a more simplified marketing or distribution channel than do global companies.

The film industry provides a great example of the distribution decisions that marketers must make. Before a production company releases a new movie, it must decide which channels are best for distributing it to consumers. In today's market, movie producers have a slew of distribution options, including Netflix, HBOMax, and YouTube, to name a few. They also have the option of distributing through traditional movie theaters, such as AMC or Regal. Regardless of the marketing channel they pursue, their goal is to distribute their movie to the right customers at the right place and at the right time. Production companies will choose the marketing channel that is most efficient at helping them achieve this goal.

Marketing Channels for Consumer Products

Companies that use intermediaries to deliver value to consumers have a variety of marketing channel options. There are four major types of intermediaries: agents or brokers, distributors, wholesalers, and retailers (see Figure 11.2).

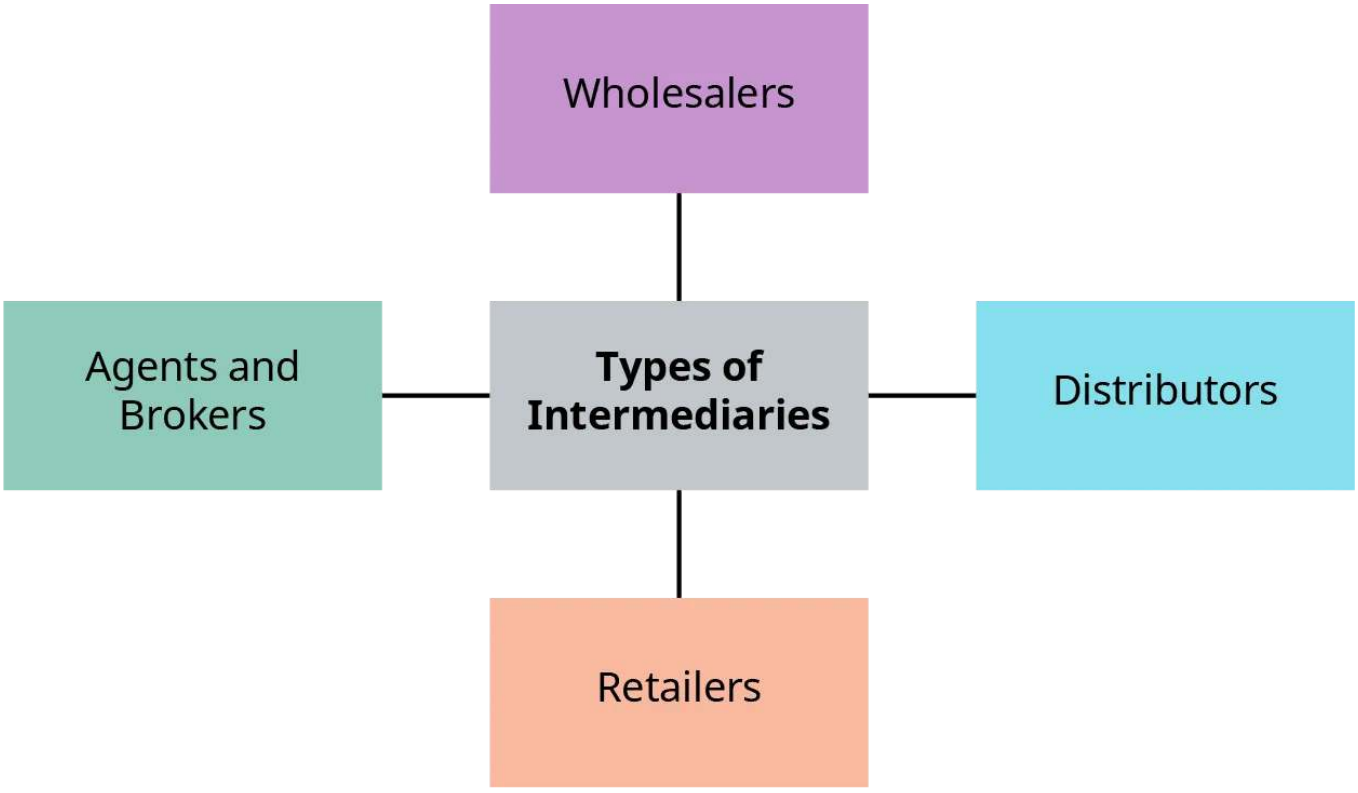


Figure 11.2 Types of Intermediaries (CC BY 4.0; Rice University & OpenStax)

An agent or broker acts as an extension to the manufacturer. While they never take possession of the product or service they represent, they earn a commission or collect a fee for facilitating the transaction between the customer and the manufacturer. Auto insurance agents, for example, may sell Geico or Allstate auto insurance policies to consumers. The agent serves as a representative who answers questions, gathers information, and provides a quote on behalf of the insurance company.

A distributor takes ownership of the product and tends to align itself closely with a manufacturer. For example, Coca-Cola uses distributors who contract to distribute only Coca-Cola products, not PepsiCo products.

Wholesalers are similar to distributors in that they take ownership of products; however, they buy a variety of products in large quantities and bulk-break to distribute an assortment of products to retailers in a quantity aimed at meeting the needs of end users or consumers. Let's examine how the different types of intermediaries depend on one another. AstraZeneca manufactures prescription medications that are made available to consumers through pharmacies such as CVS and Walgreens. Pharmacies are retailers in the marketing channel because they sell a wide variety of consumer products, from toothpaste to milk to medications.

Before AstraZeneca's medications reach retail pharmacies, they are purchased in bulk by wholesalers who partner directly with AstraZeneca. Wholesalers are an integral part of the marketing channel because they package and handle medications and manage the logistics of delivery to retail pharmacies. This creates value for the customer because the right quantity of medications arrives at retail pharmacies safely and in good condition.

The fourth type of intermediary is the retailer. Retailers also take ownership of the product, focusing solely on directly reaching the end-user or customer. They purchase a wide variety of products in smaller amounts that meet the wants and needs of consumers. Retailers include companies such as Rite Aid, Walmart, Target, and Hallmark.

Intermediary Functions

The intermediaries' role is critical, and they perform a variety of functions (as shown in Table 11.1) that create value for other members in the marketing channel.

Intermediary Functions

Intermediary Functions
Transactional: Buying, selling, and temporary risk-bearing
Logistical: Handling, packing, inventorying, and transporting
Facilitating: Financing and information sharing

Table 11.1 Intermediary Functions

Let's examine the three functions: transactional, logistical, and facilitating.

Transactional Functions

Intermediaries perform a variety of transactional functions that improve the efficiency of the channel. Transactional functions involve the buying, selling, and risk-bearing that accompany the movement of products along the marketing channel. Companies share the risk of ownership by temporarily possessing products before selling them to another channel member.

Imagine if a small bakery made the best oatmeal raisin cookies and decided to distribute them to consumers using local restaurants in the city. The bakery sells to the restaurant, which then sells to the customer. Temporary risk-sharing, in this scenario, means that, at first, the bakery assumes the risk in the making, storing, and transporting of the cookies, but that risk transfers to the restaurant once the restaurant buys the cookies. The restaurant then assumes ownership and responsibility for selling the cookies, which may involve placing them somewhere customers can see them.

The transactional functions of buying, selling, and risk-bearing help add value in the marketing channel because the system allows for channel members to work together to move a product offering to consumers efficiently and effectively.

Logistical Functions

In addition to transactional functions, intermediaries also perform logistical functions, which involve handling, packing, inventorying, transporting, warehousing, and ensuring the security of products as they make their way to the customer. In the earlier bakery example, the bakery must ensure the cookies are fresh and tasty to continue supplying restaurants with a product consumers desire. To ensure that cookies meet the wants and needs of customers, both the bakery and the restaurant must ensure the product is handled safely in the marketing channel. That might mean selecting a trucking company that secures the cookies during transport to restaurants and packaging them so that freshness is sealed and quality is maintained.

Facilitating Functions

In addition to transactional and logistical functions, intermediaries also help facilitate the purchase of products and services. Facilitating functions involve financing and sharing information with members of the marketing channel. Intermediaries may provide financing to one another and to the end-user to help move the product along the channel. Financing involves one channel member allowing another channel member to pay overtime.

In the bakery example, pretend that the restaurant purchases $12,000 in cookies each year. Instead of the bakery requiring the restaurant to pay for the order in full at the beginning of each year, it allows the restaurant to pay $1,000 a month over 12 months. This benefits the restaurant because a large amount of capital isn't tied up in its cookie order payment but is spread out over time. While some companies require payment in full, others permit payment installments over time. The payment terms are explicitly stated at the start of the buying and selling relationship between companies.

Intermediaries also share information that can be used to improve marketing decisions. Intermediaries often share key data such as consumer feedback on a product or service, the shopping behavior surrounding that product or service, and historical purchase trends. The facilitating functions that intermediaries perform ultimately help marketing channel members make better distribution decisions and, in some cases, financially support the movement of these products and services in the name of delivering value to customers.

How Intermediaries Add Value to Customers

Intermediaries play a critical role in adding value to customers. They specialize in aspects of distribution that manufacturers don't wish to specialize in. They create efficiencies in the marketing channel by reducing transactions, sharing important information among partners, and matching the right quantity of the right product to customer demand. While manufacturers focus on creating value for customers, intermediaries focus on delivering that value.

Dove manufactures millions of units of body wash, bar soap, dry spray antiperspirants, and hair products. In turn, it sells large quantities of these products to wholesalers, who, after buying in bulk, break these large quantities down into smaller assortments that are then sold to retailers. This allows consumers to buy a variety of products in smaller amounts. They can visit a Target, a CVS, or the Amazon website and purchase three bars of soap, one bottle of shampoo, and one bottle of conditioner.

Without intermediaries, customers would need to buy directly from every manufacturer producing the desired product. Imagine grocery shopping without intermediaries. Instead of shopping at one or two grocery retailers for bread, milk, cereal, fruit, and ice cream, shoppers would need to buy from individual manufacturers, making shopping extremely time-consuming and difficult.

Intermediaries add value by reducing the number of transactions between companies and customers. As illustrated in Figure 11.3, there are nine transactions without intermediaries and five transactions using intermediaries. Consider the inefficiencies if companies had to transact directly with individual consumers.

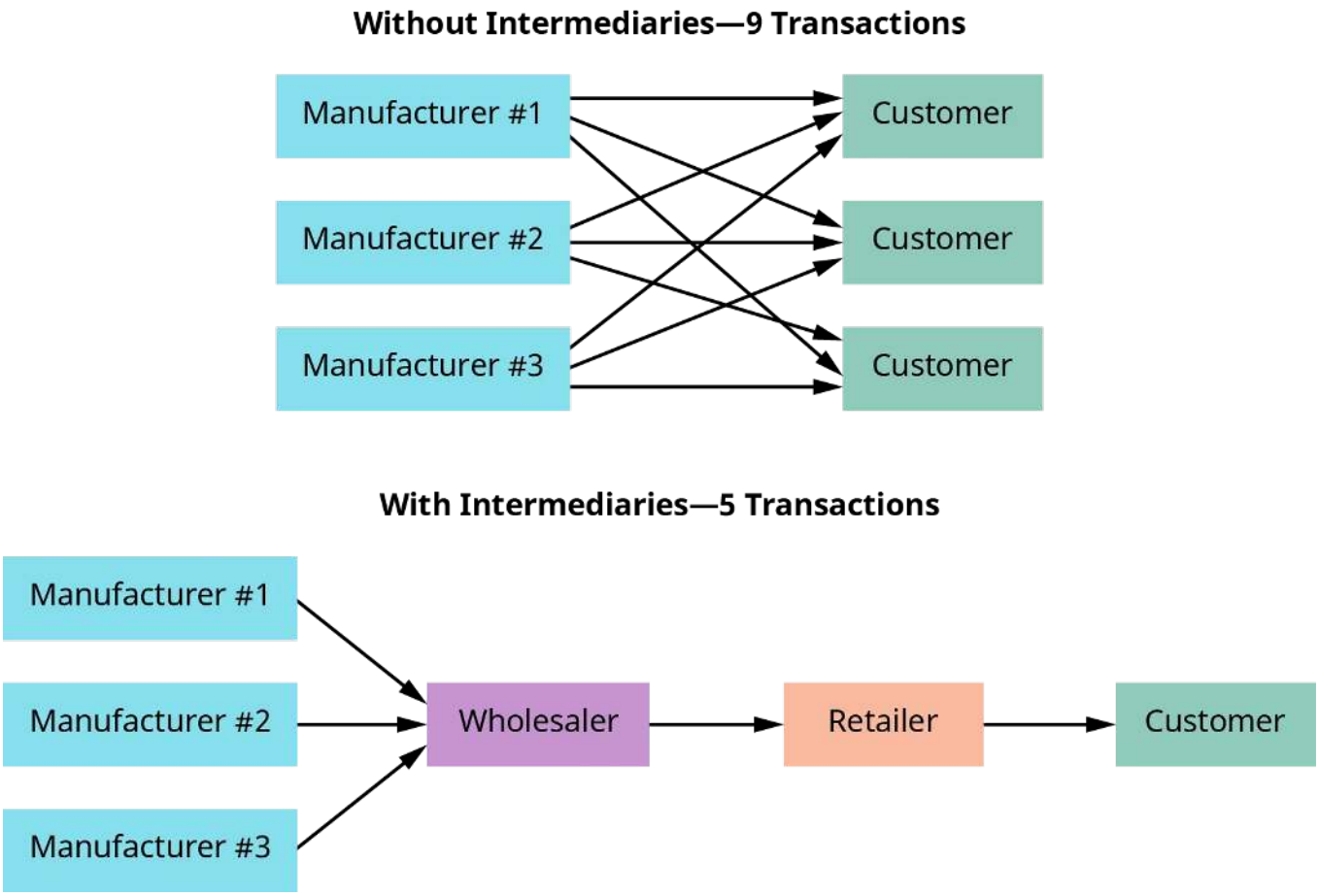


Figure 11.3 How Intermediaries Add Value by Reducing Transactions (CC BY 4.0; Rice University & OpenStax)

Providing Needed Information about Products and Services

Intermediaries share pertinent information about the products and services that move through the distribution channel. More specifically, intermediaries gather, analyze, and communicate information to other distribution partners to improve the effectiveness and efficiency of the channel. This flow ultimately helps marketers plan and optimize the distribution channel so that consumers get the right products and services at the right place and at the right time.

Adjusting for Discrepancy of Quantity

As intermediaries move products and services from manufacturers to consumers, they offer the valuable service of accumulating and bulk-breaking. Bulk-breaking is when an intermediary takes a large quantity of a manufacturer's product and breaks it down into smaller units to be distributed to retailers based on consumer demand. Consumers desire to purchase in smaller quantities from retailers. Wholesalers buy in bulk from producers and break the bulk into the right size quantity for retailers, who ultimately meet the needs of consumers who want an assortment of products in small quantities.

Accumulating relates to intermediaries buying in bulk from different manufacturers. When buying in bulk, it is beneficial to the manufacturers because the risk is passed from manufacturers to intermediaries. The United States produces hundreds of millions of bushels of apples, oranges, and peaches each year (Agricultural Marketing Resource Center, 2021). These types of produce require different climates and care and are, therefore, grown in different states across the country. Wholesalers play a critical role in buying an assortment of this product in bulk from these producers and ensure that they are sold to retailers in the right quantity to meet the needs of consumers.

Together, these activities allow intermediaries to offer retailers the right number of products to offer consumers, based on demand.

Adjusting for Discrepancy of Assortment

Intermediaries also add value by adjusting for the discrepancies in assortment between the manufacturer and the consumer. Discrepancy of assortment is the difference between the variety of products a manufacturer produces and the variety consumers want to purchase. Adjusting for discrepancy of assortment occurs when an intermediary buys from manufacturers and then regroups products into different assortments based on what consumers demand from retailers.

While manufacturers generally produce large quantities of one or a few types of products, consumers demand small quantities of an assortment of products. For example, when visiting the grocery store, consumers demand an array of different products in small quantities. Depending on the size of their household, consumers are generally shopping to meet the needs of one or a few people; therefore, they value the ability to buy a variety of products in smaller quantities. Intermediaries mitigate these differences by matching supply assortment to demand assortment.

Providing Credit to Customers

Intermediaries also provide credit to customers. Consumers can hardly check out at a cash register without being asked if they want to sign up for a credit card. By extending credit to customers, retailers from Dick's Sporting Goods to furniture retailer Wayfair give customers the chance to spend now and pay over a period of time with interest.

While providing credit to customers is often accompanied by special email offers and direct mail coupon codes, the corresponding interest rates are often high. Nevertheless, providing credit to customers can create brand loyalty and provide retailers with insight into consumer purchases (Irby, 2020).

Careers In Marketing: Distribution Management

Distribution managers determine when, where, and how much of a product is distributed. Learn more about the job role and what it entails in this video.



Michigan State University provides insightful information on this career, including a sample job description, roles and responsibilities, salary, education, and training. When looking at your skill development and what you may need to obtain a job, check out ZipRecruiter's website. It indicates that although several skills are required for this job role, compliance and customer service are the most common. Read more about the needed skills on the Zip Recruiter website.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

A(n) _____ is a group of people, organizations, processes, and activities that work together to deliver products and services to the consumer.

a. wholesaler
b. manufacturer
c. intermediary
d. marketing channel

2.

A(n) _____ is someone who acts as an extension of the manufacturer. While they never take possession of the product or service they represent, they earn a commission or collect a fee for facilitating the transaction between the customer and the manufacturer.

a. retailer
b. wholesaler
c. distributor
d. agent

3.

Without intermediaries, the number of transactions between the total number of manufacturers and the total number of consumers would _____.

a. decrease
b. stay the same
c. increase

d. decrease temporarily

4.

What do intermediaries do to add value to the marketing channel?

a. They perform important activities that manufacturers are not experts at performing.
b. They increase the price of products and services for customers.
c. They increase the time it takes for products and services to reach consumers.
d. They make improvements to the product so that it functions better.

5.

As intermediaries move products and services from manufacturers to consumers, what key services do they offer?

a. Pricing and promoting across geographical areas
b. Surveying customers to ensure they are satisfied with their product or service experience
c. Competing with one another to reduce prices for consumers
d. Accumulating, bulk-breaking, adjusting for assortment discrepancies, and providing financing

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11.3: Types of Marketing Channels

Learning Objectives

By the end of this section, you will be able to

- Identify the types of marketing channels that exist for consumer products.
- Describe the types of marketing channels that exist for business/industrial products.
- Discuss vertical, horizontal, multichannel, and omnichannel marketing systems.

Types of Marketing Channels

When determining the most effective and efficient way to reach consumers with products, companies have two options. They can either sell and distribute their products directly to consumers, a mechanism known as a direct channel, or they can partner with intermediaries who can assist with the distribution, known as an indirect channel.

Direct Channel: From Producer to Consumer

In some cases, manufacturers decide that a direct marketing channel makes sense. A direct marketing channel does not use intermediaries but involves the manufacturer distributing its market offering directly to consumers. When consumers purchase pizza from their locally owned and operated pizza shop, the distribution of that pizza passes from the restaurant directly to the consumer. There are no intermediaries between the pizza shop and the customer.

Indirect Channels: From Producer to Intermediary to Consumer

An indirect channel involves the utilization of one or more intermediaries to distribute a market offering to consumers. Continuing with our pizza shop example, if a local pizza shop offered pizza that was delicious enough to package, freeze, and sell through local grocery stores in the frozen food aisle, that pizza shop would be adding an indirect channel of distribution.

In some cases, manufacturers or producers sell to retailers without wholesalers or distributors, called the producer-to-retailer-to-consumer channel. A local Ace Hardware, for example, sells fishing lures made by the local scout troop. The troop purchases the supplies necessary to make the lures and then sells them to Ace Hardware, which sells them to customers.

With producer to wholesaler to retailer to consumer—a more complex marketing channel—multiple types of intermediaries are needed. Procter & Gamble, the maker of Crest, Gillette, and Pampers, relies on an intricate network of intermediaries composed of wholesalers and retailers that work interdependently to ensure the right mix and quantity of products reach consumers. Consider all the places a consumer can purchase Procter & Gamble products all over the world.

For some industries, the distribution network is complex, and agents represent the manufacturer in marketing channel negotiations. Health insurance agents, for example, represent major insurance carriers such as Aetna and Blue Cross by providing consumers with information about health plans in their state. In these situations, the agent does not take ownership of the product like other intermediaries but is paid a fee by the insurance carrier.

For companies with a diverse product category that spans the globe, indirect channels of distribution make the most sense. Procter & Gamble sells hundreds of different products across many product categories worldwide. Indirect channels are necessary in such cases. Figure 11.4 illustrates the difference between a direct and indirect channel of distribution for consumer products.

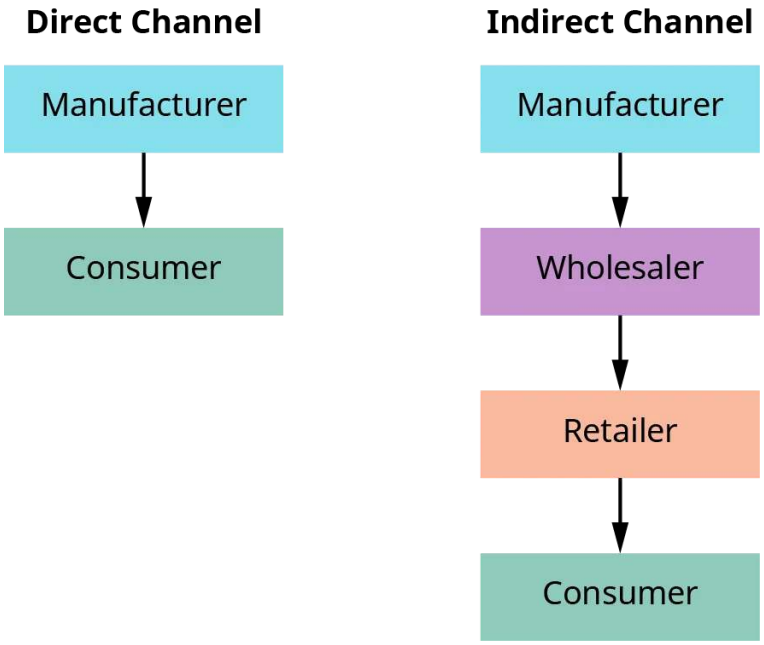


Figure 11.4 Channels of Distribution for Consumer Products (CC BY 4.0; Rice University & OpenStax)

Marketing Channels for Business/Industrial Products

The business-to-business (B2B) market comprises companies that buy from and sell to other companies. In the B2B space, businesses are not distributing to final consumers but to other businesses. Companies in the B2B market buy, sell, and use materials, resources, and technology from one another to create products, where a business is the final consumer or destination.

Within this market, agents, brokers, distributors, and wholesalers specialize in moving industrial products along the marketing channel to the final business consumer. Figure 11.5 illustrates an example of a distribution channel for business products.

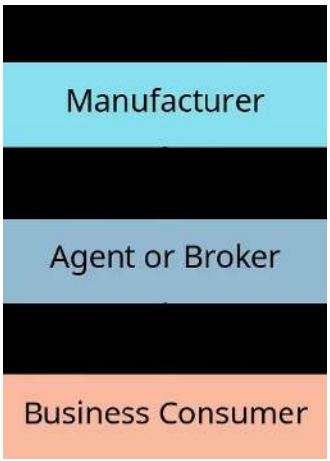


Figure 11.5 Channel of Distribution for Business (CC BY 4.0; Rice University & OpenStax)

Direct Channel: From Producer to Business/Industrial User

Much like the business-to-consumer (B2C) space, when a company sells products or services directly to a final consumer or end user, the B2B marketing channel can be direct without intermediaries. The direct channel is typically used when the nature of the product is complex, is expensive, or requires intensive resources to move the product from the manufacturer to the business customer. Airplane manufacturers like Boeing and Airbus produce and sell aircraft directly to airlines like Delta Air Lines and American Airlines, who then offer flights to consumers. Given the expense and complexity of distributing airplanes, the direct channel makes the most sense.

Indirect Channels: From Producer to Intermediaries to Business/Industrial User

Industries often rely on the expertise of intermediaries to reach business users with their products and services. The advantages of the indirect channel in the business-to-business (B2B) space are similar to those in the business-to-consumer (B2C) space. For some industries, intermediaries perform important functions along the business marketing channel that they themselves are not experts in. Let's explore the different indirect marketing channels.

With producer to industrial distributor to business/industrial user channels, car manufacturers like Toyota and Honda rely on tens of thousands of different parts, which are manufactured by parts producers. Producers supply the raw materials that manufacturers need to create consumer products. Parts producers such as the car seating and E-Systems engineering company Lear rely on distributors to move their products and technology to automobile manufacturers. Using a distributor allows Lear to focus on its center of excellence—researching, designing, and building innovative vehicle seating technology solutions.

Agents in the B2B space represent companies that produce industrial products and services and serve as an intermediary between the producer and the business user. The agent's value in the B2B space is similar to that in the B2C space. Agents add value by addressing product- or service-related questions and concerns. They typically earn a commission or a fee off the sale of the industrial product.

For more complex industrial marketing channels with global business users, producers work with agents who partner directly with distributors to move products. For example, the automobile industry relies on agents and distributors to reach business users. According to Global Fleet, the world's largest fleet vehicle management company, of the 313 million vehicles driven in the United States and Canada, about 9 million are corporate cars (Bland, 2021). Element Fleet Management, based in Toronto, Ontario, manages corporate vehicle fleets across the United States, Canada, and Mexico. Companies whose operations reach global markets typically rely on a more complex channel involving multiple layers of intermediaries to distribute products and services to business customers.

Other Marketing Systems

Manufacturers or producers and their intermediary channel partners work in a system to move products and services to consumers. There are four major system types: a vertical marketing system, a horizontal marketing system, a multichannel marketing system, and an omnichannel marketing system. We'll explore each of these systems next.

Vertical Marketing System

A vertical marketing system (VMS) is one in which companies in the marketing channel work together in a coordinated, collaborative, and customer-centric way. Unlike conventional systems, vertical marketing systems are less concerned with their profit margins and have a laser-like focus on working together to deliver value to consumers.

A VMS is unique in that all members of the marketing channel work as one unified group. Producers, wholesalers, and distributors share the goal of creating and delivering value to consumers. In contrast, a conventional system is one in which each intermediary works as a distinct company, each trying to maximize profits at the expense of other channel members. VMS has grown in popularity over the conventional system because it reduces channel conflicts and increases customer value.

Link to Learning: Marketing Systems

To learn more about how marketing systems work, check out these videos:

- What Is a Channel System?



- What Is a Vertical Marketing System?



In Figure 11.6, observe the structural differences between the conventional marketing system (part A) and the vertical marketing system (part B). In the conventional model, the manufacturer sells to wholesalers, who then sell to retailers, who then sell to consumers. In the vertical marketing system, channel members work together as strategic partners to distribute products to consumers.

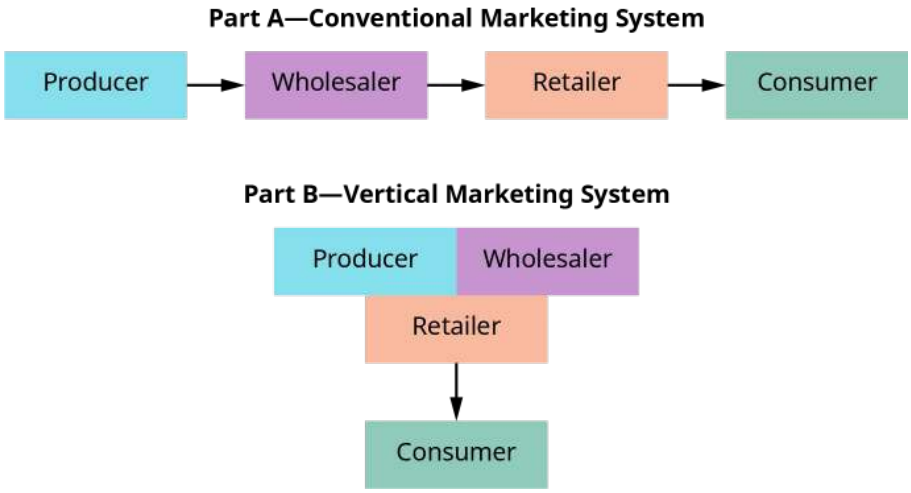


Figure 11.6 Structural Differences between Conventional and Vertical Marketing Systems (CC BY 4.0; Rice University & OpenStax)

There are three types of vertical marketing systems: corporate, administered, and contractual (see Figure 11.7). In a **corporate VMS**, one distribution channel member owns the others. For example, Walmart manufactures its own private-label brand of beauty and health products under the name Equate. Walmart not only controls the manufacturing of products under the brand but also owns and operates the wholesaler that distributes Equate-branded products to Walmart stores all over the world. Walmart reduces risk by owning and thus controlling the various channel members in its VMS. The corporate VMS approach allows for a unified system of creating and delivering customer value.

In an administered VMS, there is no ownership of channel members. However, there is one member who is large and powerful enough to coordinate and manage the distribution activities of other channels members. For example, Procter & Gamble manufactures 65 brands in over 10 product categories. Given its size and power, it requires a high level of cooperation among wholesalers and retailers.

In a contractual VMS, independent companies have joined together by contract for a mutually beneficial purpose. Each company operates independently of the others but integrates its activities to achieve its goals. An example of a contractual VMS is a franchise organization, such as Chipotle or McDonald's, in which the company creates a contract with a wholesaler to distribute products to the franchisees.

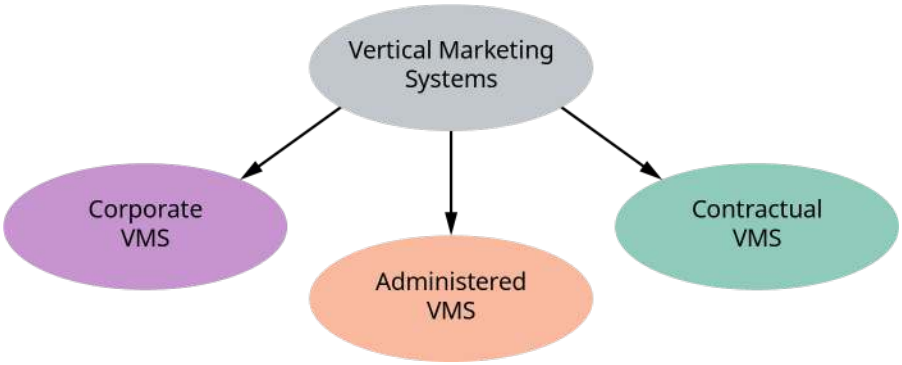


Figure 11.7 Types of Vertical Marketing Systems (CC BY 4.0; Rice University & OpenStax)

Horizontal Marketing System

In a horizontal marketing system, unrelated companies partner to offer products and services in a shared space. For example, J.Crew and New Balance have partnered together for the last decade to sell a unique line of New Balance–branded sneakers that can only be found on J.Crew's website. In a horizontal system, companies partner to leverage the value they create for customers in a collaborative way.

Multichannel Marketing System

A multichannel distribution system is where a single company sets up multiple distribution channels to reach customers. For example, Nike has brick-and-mortar stores across major cities. Customers can visit the store, try on shoes and apparel, and make a purchase. In addition to physical stores, Nike also distributes its shoes and apparel through its online store Nike.com, through e-tailers like Amazon.com, and through other brick-and-mortar stores like Kohl's and Foot Locker.

Omnichannel Marketing System

An omnichannel marketing system is a multichannel approach whereby companies give consumers a variety of ways to purchase, receive, and return products. For example, in addition to purchasing products online and in-store, Dick's Sporting Goods offers customers a variety of options for receiving a product. Consumers can buy online and pick up in-store. They can also buy online from one of the store's kiosks and have it delivered to their home or elsewhere. Omnichannel marketing systems are designed to offer consumers a seamless buying experience, which further creates and delivers value.

Link to Learning: Omnichannel

To learn more about an omnichannel marketing system, check out these videos:

- Ted Talk: Omnichannel: Retail (R)evolution



- Teredata: Omni-Channel Retailing



Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

A(n) _____ marketing channel does not use intermediaries but rather involves the manufacturer distributing its market offering directly to consumers.

a. indirect
b. direct
c. omnichannel
d. multichannel

2.

A(n) _____ marketing channel partners with intermediaries, including distributors, wholesalers, agents, or retailers to sell and distribute its products.

a. omnichannel
b. indirect
c. multichannel
d. vertical channel

3.

In the B2B or industrial space, manufacturers or producers sell products and services aimed at reaching a(n) _____ end user.

a. consumer
b. agent
c. business
d. wholesaler

4.

In a(n) _____, one member of the distribution channel owns the other members.

a. administered vertical marketing system
b. corporate vertical marketing system

c. horizontal marketing system
d. multichannel marketing system

5.

What is the difference between multichannel and omnichannel marketing systems?

a. Multichannel marketing systems are designed primarily for online distribution.
b. Omnichannel marketing systems are designed primarily for in-store distribution.
c. Omnichannel marketing systems are more flexible and seamless in how consumers buy and receive products and services.
d. Multichannel marketing systems are more flexible and seamless in how consumers buy and receive products and services.

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11.4: Factors Influencing Channel Choice

Learning Objectives

By the end of this section, you will be able to

- Identify the factors that influence channel choice in distribution.
- Describe the different types of target market coverage.
- Discuss the buyer requirements influencing channel choice.
- Explain the product-related factors influencing channel choice.
- Describe the cost factors influencing channel choice.

Target Market Coverage

Target market coverage is defined as having the resources and capabilities to reach and serve consumers in a company's target market. Companies of all sizes must determine precisely how they will reach consumers with their products and services. Smaller companies tend to focus on smaller, more local markets, whereas larger companies must meet the consumer demand of larger, even global markets. A company's decision about which channel is best for meeting the needs of consumers involves several considerations.

The first factor that plays an important role in channel choice is target market coverage. Companies must analyze the size of their target market and their budget and ensure they have the appropriate coverage. For example, a small local bakery may only target towns in its area; therefore, its target market coverage is rather small. Kohlberg & Company, the owner of the Sara Lee and Thomas' brands, on the other hand, reaches global consumers and therefore requires far greater market coverage.

Depending on the size of their target market and the products and services they sell, companies must decide between an intensive, selective, or exclusive distribution strategy.

Intensive Distribution

Intensive distribution is a strategy that entails distributing a company's market offering through all possible intermediaries. With an intensive distribution, a consumer can find a company's product virtually everywhere. Intensive distribution makes sense for products that compete in a competitive market where consumers can easily choose an alternative if a company's product isn't available.

Coca-Cola and Kraft, for example, use intensive distribution so that consumers around the world can access their products everywhere and anywhere they'd shop for food and beverages.

Selective Distribution

Selective distribution is a strategy that includes choosing more than one but fewer than all possible intermediaries to distribute a company's market offering. Companies choose selective distribution when they don't need the expansive coverage that intensive distribution provides but still need to reach their target market at specific retail outlets. Large appliance companies such as Whirlpool and General Electric use selective distribution by making their products available through their dealer networks and at selective large retailers like Lowe's and Home Depot.

Exclusive Distribution

In direct contrast to an intensive distribution strategy, some companies intentionally use an exclusive one. Exclusive distribution is a strategy that involves allowing a limited number of intermediaries to distribute a company's market offering. Luxury brand Rolex, for example, allows a limited number of retailers to sell its luxury watches. The exclusivity of these retailers reinforces Rolex's distinctive position of being a luxurious, hard-to-get brand.

Fulfillment of Buyer Requirements

In addition to determining target market coverage, companies must also consider a channel's ability to fulfill buyers' requirements. Consumers have specific product and service expectations that must be fulfilled to satisfy their wants and needs. For example, when consumers purchase bottled water, they expect the bottle to be filled to the top, the cap to be sealed before opening, and the

water to taste fresh and clean. With these buyer requirements in mind, companies that make bottled water must ensure that they work with channel members who can fulfill these buyer requirements because these requirements are critical to the perception of consumer value.

Information

Companies that recognize that buyers require information to decide between competing products may work with channel members who can provide these services. Consumers with limited knowledge of a product, for example, may be more likely to purchase that product after an in-store demonstration. Grocery retailers like Whole Foods often host in-store demonstrations of new food products for shoppers to sample (see Figure 11.8). Providing this service makes Whole Foods a desirable channel partner for start-up food brands looking to break into a highly competitive market. In another example, Ace Hardware may be a perfect channel partner for a new brand of tools because of Ace Hardware's reputation for being "the helpful place." Working with a channel member who can provide the service of in-store demonstrations creates value for the consumer and thus is a factor in determining channel choice.



Figure 11.8 Whole Foods uses in-store demonstrations as a way to share product information with consumers. (credit: "Whole Foods Market Ann Arbor" by Andypiper/flickr, CC BY 2.0)

Convenience

In some cases, buyers demand convenience and will only purchase products and services near where they live, work, or shop. Companies must consider whether their target customers value convenience. For example, buyers shopping for chewing gum likely value convenience much more than buyers shopping for skis. Companies whose buyers require convenience should choose retail outlets that are convenient and hassle-free.

Variety

Companies must also consider the variety of their target market's values. Imagine walking into a pet supply store and only seeing one type of pet food. Buyers generally have a desire to choose from a variety of competing products. Petco and PetSmart recognize that consumers appreciate variety in everything from pet food to pet supplies such as toys, leashes, and bedding. For companies who compete in a crowded market where buyers have many options, selecting outlets that offer a variety of similar and competing products makes the most sense.

Pre- or Post-Sale Service

Pre-sale service entails all the activities that help a buyer make a purchase decision, while post-sale service entails all the activities that help a buyer recognize the product's value. A pre-sale service can be observed at a car dealership where shoppers are invited to

test-drive a vehicle and apply for financing. Post-sale service in this same example would be the offering of vehicle services such as free oil changes and tire rotations for the life of the vehicle.

For some companies, the service provided before and after the sale is critical to customer-perceived value. Customer-perceived value is a consumer's overall perception of a company, brand, or product and is measured by what the consumer is willing to pay in return for the features and benefits in the market offering. Companies that sell large appliances and furniture, for example, understand that consumers value haul-away services. For example, for an additional fee, Lowe's offers customers the option of having their old appliance hauled away and their new appliance installed. These complimentary services are important because they add value to the customer's product experience (see Figure 11.9).



Figure 11.9 Lowe's appliance haul-away program provides a post-sales service as a value-add item to influence potential consumers. (credit: "Show-Me Green Tax" by Rachel Gleason/KOMU News/flickr, CC BY 2.0)

Product-Related Factors

In addition to target market coverage and requirements of the buyer, there are product-related factors that can influence channel decisions. Product-related factors include unit value, perishability, and the bulk and weight of a product. These factors can influence companies' distribution decisions (see Figure 11.10).

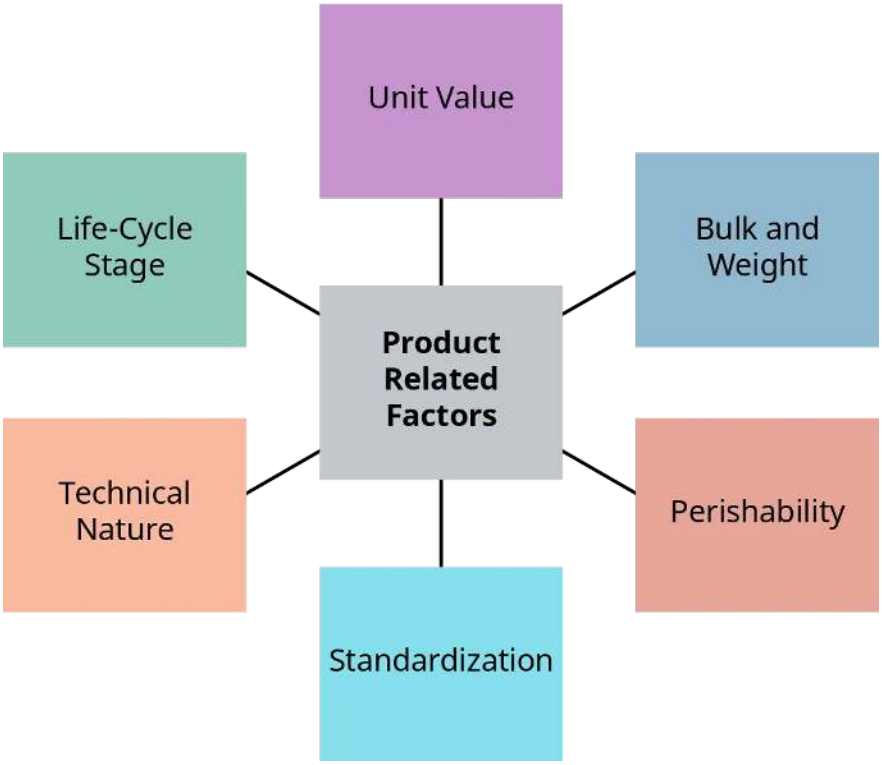


Figure 11.10 Product-Related Factors (CC BY 4.0; Rice University & OpenStax)

Unit Value

A product's unit value, or the price that a company charges for one unit or item, can influence channel length decisions. Channel length relates to the number of intermediaries in the marketing channel. For example, products with high unit values, such as cars, boats, and airplanes, will have a much shorter distribution channel than nonperishable products, such as crackers, bandages, and tissues, which have a low unit value. Because of the complexities and costs of moving heavy or awkward products, companies seek a shorter distribution channel to mitigate these factors. Some companies specialize in moving more expensive and complex products.

Perishability

Perishability relates to the likelihood that a product will spoil, decay, or expire if not used in a timely manner. A product's perishability also influences channel decisions. For example, the marketing channel of orange juice maker Tropicana looks much different from Nabisco's Ritz Crackers channel. Because orange juice must be kept cold throughout the distribution process, Tropicana makes channel decisions that allow it to protect the integrity of the product throughout the distribution process. Working with channel partners who are experts at storing, handling, and moving perishable products is one of the most important factors for companies that manufacture perishable products.

Alongside unit value, perishability can also influence channel length. Companies marketing perishable goods such as milk, cheese, and meat products require a shorter distribution channel because these products have a limited shelf life.

Bulk and Weight

Much like a product's unit value, the bulk and weight of a product influence channel length. The bulk and weight of a product is the density and heaviness of one unit of product. Companies that sell larger and heavier items are more likely to use a direct or short distribution channel to avoid issues that arise when too many intermediaries handle a product. For example, because hot tubs or personal spas are bulky and heavy, they are more prone to product damage during distribution. Furthermore, there are typically fewer intermediaries between the manufacturer and the customer to mitigate the high costs associated with distributing hot tubs (Technavio, 2021).

Standardization

The standardization of a product also impacts channel decisions. Standardized products have no differences in how they are manufactured. Standardized products are uniform and consistent. Agricultural products, such as grain and corn, are standardized. Consumers cannot tell the difference between these products because of their standardization. Standardized products have a longer channel length than customized products. Customized products are adapted depending on the customer's needs. They typically require a shorter distribution channel. Companies must consider the impact of standardization before making channel decisions.

Technical Nature of a Product

Products sold in the tech space are typically more complex and often require an onboarding process. For example, the customer-relationship management firm Salesforce offers companies a cloud-based application that allows it to manage millions of contacts or people as they move along the sales cycle from lead to prospect to customer. Products with a technical component often have a short channel length, meaning there is no intermediary between the company and the business consumer. They are distributed directly to business consumers (or B2B) because of the product's onboarding, implementation, training, support, and maintenance aspects. Companies that use Salesforce have access to a customer relationship management expert who ensures that the program is being used and managed effectively for the customer to get the most out of the product.

Product Life-Cycle Stage

A product's life-cycle stage may also impact channel decisions. Product life cycle refers to the various stages a product goes through, from its introduction phase to its growth and maturity phase, and in some cases to its decline phase. For example, companies may make more conservative channel decisions during the introduction phase of a product's life cycle, where profits and consumer knowledge of a product are low. As the product enters the growth stage, companies may expand distribution to meet consumer demand. As the product enters the maturity stage and ultimately the decline state, a company must ensure its distribution strategy aligns with its changing consumer demand.

Profitability

The profitability of a channel can also influence channel decisions. Profitability relates to the amount of money to be gained after a company pays its expenses. A simple way to calculate profitability is to subtract these expenses from the revenue generated.

Companies must evaluate not just the revenue generated by working with channel partners but also the channel member's ability to operate profitably. Channels that cannot manage distribution costs effectively are less attractive for companies seeking to earn a profit. Companies ultimately must be profitable, and choosing channel partners that help them achieve their overarching goals is more desirable than those that cannot.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Which of the following overarching factors can impact channel choice in the distribution of products and services?

a. Target market coverage, fulfillment of buyer requirements, and profitability
b. Intensive, selective, and exclusive distribution
c. The technical nature of the product and its fixed and variable costs
d. The profitability of the channel and its members' abilities to meet consumer needs

2.

ABC Toys desires to distribute products across global markets. It is likely using what type of distribution strategy?

a. Exclusive
b. Selective
c. Unlimited
d. Intensive

3.

Total Appliance offers buyers installation services for refrigerators, dishwashers, washers, and dryers for $50. In addition, it also offers buyers a free annual tune-up of any major appliance purchased through its retail outlet. Which buyer requirement does Total Appliance fulfill?

a. Variety
b. Post-sale service
c. Pre-sale service
d. Convenience

4.

MilkyIce markets ice cream products through grocery retailers in the United States. Which product-related factors would have the biggest impact on MilkyIce's channel choice?

a. Standardization
b. Bulk and weight
c. Perishability
d. Unit value

5.

Which overarching factor involves analyzing the revenues and costs associated with a channel?

a. Unit value
b. Fixed costs
c. Variable costs

d. Profitability

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11.5: Managing the Distribution Channel

Learning Objectives

By the end of this section, you will be able to

- Describe how channel members are selected.
- Explain how channel members are managed and motivated.
- Discuss how channel conflict is handled.
- Summarize the metrics used for channel member evaluation.

Selecting Channel Members

After a manufacturer has evaluated its distribution channel options, it now needs to select the right channel members and manage and motivate them to operate effectively and efficiently. In addition, the manufacturer must also address any conflicts that may arise in the marketing channel. A channel member, also known as an intermediary, is a company that works in a network with other companies to help move products from manufacturers to final consumers. Channel members perform a variety of important tasks that collectively create value for the consumer.

The channel members that a company selects depend entirely on the company's evaluation of the channel member alternatives. Manufacturers should examine each channel member's years in business and experience carrying product lines. They should also evaluate each member's reputation and its profitability. PetVivo, maker of biomedical devices for pets, selected Vetcove to distribute a device for pets with osteoporosis. Because PetVivo needed to reach veterinary hospitals and clinics across all 50 states, Vetcove was the right choice because of its experience serving over 13,000 veterinary hospitals and clinics. Its expertise and reputation were attractive characteristics for PetVivo.[6]

Managing and Motivating Channel Members

After channel members have been selected, manufacturers must continuously manage and motivate members to work together to achieve their collective goals. It's similar to a partnership or relationship where companies depend on one another to marshal the product along the marketing channel.

The qualities of an effective channel relationship include collaboration, transparency, and cohesion. When members work together toward a common goal of delivering value to the consumer, the channel is more effective. Companies like L'Oréal and Procter & Gamble must work harmoniously to build mutually beneficial relationships with their distribution network because it's critical to meeting the needs of their consumers. Failure to do so could be detrimental to channel members if customer value declines because of conflict.

In addition to managing relationships, manufacturers must also find ways to reinforce channel member performance. Manufacturers can provide incentives, such as bonuses and other rewards, when channel members meet the manufacturer's goals. In addition to incentives, manufacturers can listen to and support channel members by providing them with helpful sales materials, product samples, and the right messaging.

Evaluating Channel Members

Manufacturers must systematically evaluate channel member performance to ensure that each member is meeting standards. Failure to evaluate performance can lead to inefficiencies in the channel and a decline in customer-perceived value.

Handling Channel Conflict

Sometimes channel members experience conflict during the distribution process. Channel conflict is when companies in the distribution channel have disagreements due to a competitive versus collaborative mindset. For example, a channel member may cause conflict because its focus isn't on creating value but on driving down costs at the customer's expense. This could create conflict in the channel if channel partners and ultimately consumers are impacted by an excessive profit orientation.

Vertical Conflict

A vertical conflict is a conflict that exists between different levels of a vertical channel. When the goals of manufacturers, wholesalers, and retailers aren't aligned in the marketing channel, the customer will ultimately suffer, either by paying more for a product or experiencing a product shortage.

Disintermediation is the process of removing an intermediary from a marketing channel. It occurs when manufacturers have discovered an opportunity to sell directly to end users or final consumers. It can also occur if a manufacturer pivots from its traditional distribution strategy to something completely different. In a classic example, the birth of Apple iTunes essentially put traditional outlets for purchasing music out of business. In another example, traditional movie theaters are experiencing disintermediation as streaming services like Netflix and HBOMax are releasing new films that 10 years ago would have been released only in theaters.

Horizontal Conflict

A horizontal conflict is when there is disagreement among firms at the same level in the marketing channel. For example, Holiday Inn has a variety of locations in New York City. If one Holiday Inn drives its prices down to outcompete its partners, that could cause conflict among the other Holiday Inn locations that perceive it as stealing customers through pricing tactics.

The Use of Metrics in Evaluating Channel Members

To evaluate channel performance, companies use key metrics including inventory turnover rate, order accuracy rate, time to ship, total units in storage, and percentage of on-time shipments. By monitoring these metrics, companies can assess their performance and make adjustments as needed. Figure 11.11 presents key metrics used in evaluating channel member performance. Let's look at each of these more closely.

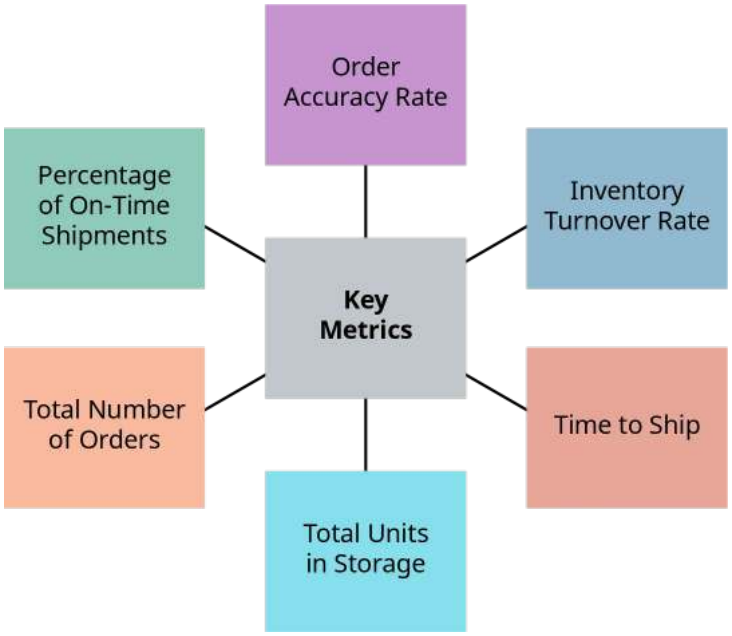


Figure 11.11 Performance Metrics (CC BY 4.0; Rice University & OpenStax)

Inventory turnover rate is a metric that measures how quickly inventory is turned over or sold. Trader Joe's faced a dilemma with the COVID-19 pandemic as consumers stocked up on nonperishable goods like pasta and rice. As consumer demand increased, Trader Joe's supply warehouses were virtually empty as they waited for new inventory. When metrics fall outside what a company considers normal or acceptable, it can then make adjustments, such as introduce new products to fill demand as in the case of Trader Joe's (Strailey, 2020).

Order accuracy rate is an important ecommerce metric. It measures the percentage of orders processed, fulfilled, and shipped to consumers without errors. If you've purchased a pair of sneakers and the wrong size arrives at your home, this constitutes order inaccuracy. These errors can be costly to companies, who then need to process, fulfill, and send another order.

Time to ship, also known as order cycle time, is the time from when a customer places an order to when it reaches them. Amazon has redefined consumer expectations related to shipping. With high expectations that purchased items will arrive quickly, online shoppers say delivery time influences their purchase decision. The time-to-ship metric is a useful tool to measure how quickly a manufacturer can get its products through channel members to consumers.

Total units in storage is a metric used to evaluate warehouse efficiency. This real-time metric changes as items are sold and leave the warehouse and new inventory moves in. This metric also provides insight into warehousing and inventory costs as well as the number of SKUs, or stock-keeping units, a warehouse is managing at any given time. SKUs are unique numbers assigned to every single product in a warehouse.

The total number of orders is an important metric. The total number of orders is the sum of all orders that a company received in a given period. It provides insight into consumer demand and helps manufacturers to plan accordingly. For seasonal products like winter coats and pumpkin-flavored cookies, the total number of orders may fluctuate throughout the year. Evaluating the total number of orders over time helps manufacturers watch for fluctuations and plan accordingly.

Percentage of on-time shipments is a metric used to evaluate how well a channel member meets its promise of delivering goods on time. This metric is especially important to industries that market perishable goods like meat and dairy. Imagine if the Greek yogurt manufacturer Chobani (see Figure 11.12) worked with an intermediary that only met its delivery date 50 percent of the time. This would directly impact the product's shelf life at the retail level and cost everyone in the channel money.



Figure 11.12 Percentage of on-time shipments is an inventory turnover metric used by companies like Chobani to evaluate a distribution channel's effectiveness at meeting product needs. (credit: "Blood Orange Yogurt" by tbiley/flickr, CC BY 2.0)

Alongside time to ship, measuring average delivery days looks at the average number of days it takes shipping carriers to deliver purchased goods to consumers. This is important to consumers who value the timely delivery of online products. Manufacturers may choose to work with a company like Amazon because of its core competency of fulfilling and delivering products to consumers relatively quickly.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

XYZ Appliance is evaluating wholesalers to determine which one would be the right match for its distribution strategy. Which of the following wholesalers would be the best match for XYZ Appliance?

a. Wholesaler A is brand new to the large appliance market.
b. Wholesaler B has 20 years of experience in wholesaling food products and is the most expensive.
c. Wholesaler C has five years of experience in the large appliance market, has a solid reputation, and is profitable.
d. Wholesaler D has two years of experience in the small appliance market and is the cheapest.

2.

DirectDocumentaries is a streaming service that provides subscribers with access to documentaries. It currently works with three production companies that it continuously manages to ensure timely production and delivery of new documentaries. Which of the following scenarios is an example of good channel management?

a. Production Company A distributes its documentaries through DirectDocumentaries but has also set up an additional domain on the web to distribute directly to viewers. DirectDocumentaries does not know about this additional streaming outlet.
b. Production Company B has only been operating for one year. DirectDocumentaries is skeptical about Production Company B's capabilities so shares limited information with it. DirectDocumentaries offers little to no support in Production Company B's development.
c. Production Company C is a powerhouse, producing 30 to 40 documentaries annually. DirectDocumentaries and Production Company C work closely together to ensure that documentary releases occur at strategic times. They also openly share information about what's working and what's not. They have a common goal in reaching customers with innovative ideas.
d. Production Company D is rarely happy. It feels that DirectDocumentaries favors other producers and rarely features its productions on a subscriber's homepage. Production Company D has complained several times.

3.

_____ occurs when manufacturers cut out intermediaries and sell directly to end users or final buyers. It can also occur if a manufacturer pivots from its traditional distribution strategy to something completely different.

a. Horizontal conflict
b. Vertical conflict
c. Intermediary conflict
d. Disintermediation

4.

Which of the following is a key metric that assesses the percentage of orders processed, fulfilled, and shipped to consumers without errors?

a. Order accuracy rate
b. Inventory turnover rate
c. Total number of orders
d. Average delivery days

5.

_____ measures the length of time from when a customer places an order to when it reaches them.

a. Average delivery days
b. Time to ship
c. Inventory turnover rate
d. Total number of orders

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11.6: The Supply Chain and Its Functions

Learning Objectives

By the end of this section, you will be able to:

- Define supply chain management (SCM).
- Explain the role of marketing in supply chain management.
- Describe the various functions of supply chain management.

Supply Chain Management (SCM) Defined

A supply chain is the entire distribution process from acquiring the raw materials needed to make products to delivering final goods to consumers. Companies with high-performing supply chains recognize that it starts with a customer-centered mindset. All activities must be managed with the end goal of creating and delivering value to the target consumer.

Supply chain management (SCM) is the process of managing all the members and activities from the procurement and transformation of raw materials into finished goods to their distribution to targeted consumers.

The Role of Marketing in Supply Chain Management

Marketing plays an integral role in the management of the supply chain. Marketing entails creating and delivering products that meet customers' needs, all while building relationships through customer engagement. Companies ensure that they deliver on their value proposition to consumers through the features and benefits of the product itself. Ensuring fulfillment of a company's value proposition starts with working with the right suppliers who provide the materials and ingredients to help companies fulfill their promise.

For example, Dave's Killer Bread (DKB) (2022) has positioned itself as the maker of "the best bread you've ever tasted, power-packed with organic whole grain nutrition." The promise to consumers starts with selecting suppliers who are certified organic and who can consistently deliver high-quality ingredients. DKB's promise to consumers starts as far back as the grains selected by DKB's suppliers.

Functions of Supply Chain Management

Supply chain management has five major functions. These include purchasing, operations, logistics, resource management, and information workflow (Figure 11.13). Good supply chains perform these functions in a way that efficiently meets the wants and needs of final consumers.

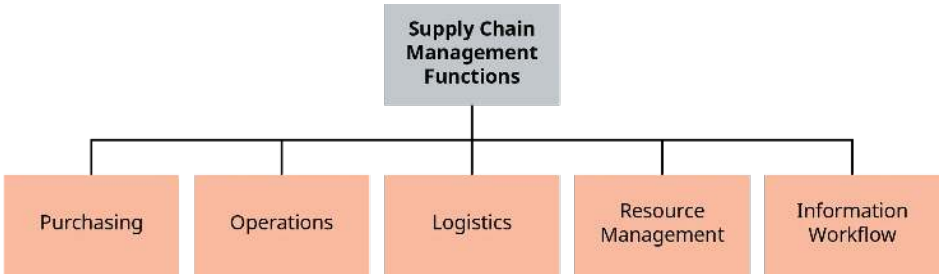


Figure 11.13 The Five Major Functions of Supply Chain Management (CC BY 4.0; Rice University & OpenStax)

Purchasing

Purchasing is the process of buying materials needed to manufacture products. These materials are purchased from suppliers, who must be able to deliver them in accordance with the manufacturer's timeline. Therefore, the manufacturer's companies and suppliers must communicate and coordinate to ensure timely delivery of materials.

For example, Ben & Jerry's ice cream flavor Mint Chocolate Chance has cream, skim milk, sugar, egg yolks, white flour, cocoa powder, soybean oil, and vanilla extract, among other ingredients. Ben and Jerry's must forecast the number of ingredients it needs to purchase so that these amounts match the demand for this particular flavor. The company, in turn, assesses factors such as total

number of orders and inventory turnover for its Mint Chocolate Chance product to help forecast the quantity of ingredients it will need from suppliers.

Operations

Operations is everything a company does daily to run a company. Before a company purchases the needed materials and begins production, it must forecast demand for its products. Forecasting involves anticipating or projecting how many units of a product will be sold during a given period. Accurate forecasting must align with inventory management and production schedules to ensure that the company is operationally positioned to manufacture the right amount of product to meet the needs of consumers.

Logistics

Logistics is a function that involves the coordination of all supply chain activities, such as warehousing, inventory management, and transportation. Companies along the supply chain must communicate effectively to ensure that products reach consumers in a timely and efficient way in the precise form that the consumer expects. For example, when consumers eat McDonald's French fries, they expect them to taste a certain way. Suppliers and intermediaries along the channel work together to meet those expectations. Good logistical management helps ensure this.

Resource Management

Resource management is the planning, organizing, and controlling of resources. Resources include the labor, raw materials, and technology required to move products from their raw material phase to finished goods available for consumption. Effective supply chain management requires allocating these resources to the right supply chain activities to optimize the entire system.

Information Workflow

Information workflow is a supply chain management function that relates to what and how information moves between supply chain members. If information doesn't flow effectively or communication is poor, the entire process can suffer from disruptions, delays, and mistakes. A systematic approach to sharing information across the supply chain ensures that the right companies have the right data to make the right decisions at the right time.

Link to Learning: Supply Chain Management

To learn more about how supply chain management works, review the following article and video: IBM and Supply Chain Management.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

_____ entails managing all the members and activities from the procurement and transformation of raw materials into finished goods through their distribution to targeted consumers.

a. Logistics
b. Integrated logistics management
c. Supply chain management
d. Warehousing

2.

Which of the following best demonstrates the role that marketing plays in supply chain management?

a. For companies to deliver on their value proposition to consumers, they must ensure that the activities and members in the supply chain share the common goal of delivering value to consumers.
b. Companies need to raise the price of their products with the supply chain in mind to earn a profit.
c. Companies must market their products to supply chain members to win partnerships with them.

d. Companies should only work with supply chain members who can save time and money in the distribution of products. Savings are most important to customers.

3.

Companies that manufacture goods rely on raw materials to produce their products. This describes the function of _____.

a. inventory management
b. supply chain management
c. transportation
d. purchasing

4.

_____ include(s) the labor, the raw materials, and the technology that are required to move products from their raw material phase to finished goods available for consumption.

a. Purchasing
b. Logistics
c. Forecasting
d. Resources

5.

_____ is a supply chain management function that relates to what and how information moves between members of the supply chain.

a. Information workflow
b. Forecasting
c. Logistics
d. Resource management

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11.7: Logistics and Its Functions

Learning Objectives

By the end of this section, you will be able to

- Define and describe logistics.
- Explain the functions of logistics.
- Describe logistics information management.
- Describe integrated logistics management.
- Characterize third-party logistics (3PL) providers.

Logistics Defined

An important function of the supply is logistics, which includes all the activities involved in the flow of products from manufacturers to consumers. Logistics comprises planning, organizing, and controlling the movement of raw materials and, ultimately, finished goods from manufacturers to final consumers.

For example, the logistics involved in getting orange juice to consumers includes various activities such as packing and transporting. A coordinated effort between all channel members involved in that process is critical. Next, we explore the functions or purpose of logistics.

Functions of Logistics

Getting products from manufacturers to final consumers requires the coordinated efforts of all channel members. These efforts require an understanding of key activities that must occur as products flow through the marketing channel. The major functions of logistics explored next include warehousing, inventory management, and transportation.

Warehousing involves stocking, maintaining, and controlling products while they await the next step in their journey to the final consumer. Warehousing requires receiving and storing new stock, picking and packing ordered items, and shipping products off to their next destination. Depending on the product, warehousing may also involve maintaining control of the warehouse’s temperature to ensure that perishable goods or foods that must be held at a certain temperature don’t spoil.

Inventory management is a function that involves identifying the type of inventory and how much a company has on hand at any given time. Managing inventory is a critical logistics function because it ensures that there isn't too much or too little on hand.

Transportation is the physical movement of products by either road, water, or air (see Figure 11.14). Companies must determine which transportation method makes the most sense given the product's nature, the target market's location, and the costs associated with each method. Transportation also involves activities such as the generation of shipping documents, the calculation of delivery time, and the need for additional resources like technology or special equipment. For example, an ice cream manufacturer must ensure that the transportation methods it selects to distribute its products are temperature-controlled to maintain the products' integrity and safety.



Figure 11.14 Shipping containers are used by transportation companies in the distribution channel to move products by ship. (credit: “LARS MAERSK” by Bernard Spragg.NZ/flickr, Public Domain)

Companies must consider three factors in selecting a mode of transportation. First is the product itself. Products that are hazardous, perishable, or problematic to handle may impact transportation methods. Location is a second factor that can impact the mode of transportation. Companies must consider shipping origin, which is the location from which the product ships. They must also consider the shipping destination, or the location where the product must land. For example, a company transporting products from China to the United States must select transportation methods that allow it to move products over large bodies of water. The third factor impacting transportation methods is any special consideration related to time or urgency. Companies must consider how quickly they need products moved from origin to destination. A variety of transportation methods are available, including trucking, rail, water carriers, air carriers, or some combination of these.

In Table 11.2 different modes of transportation are presented along with their relative speed of delivery, cost, and accessibility. Accessibility means how readily available or convenient the mode of transportation is. For example, trucking is an accessible mode of transportation because of the strong road infrastructure in the United States. Let’s compare the different modes of transportation based on these characteristics.

Trucking or road transportation makes the most sense for companies transporting between destinations connected by land. It is highly accessible, meaning that trucking is readily available to companies looking for a low-cost transportation mode.

Rail is a second mode of transportation that is best suited for moving goods in cases where speed of delivery is not urgent and low transportation costs are important. Like rail, water carriers offer an even slower mode of transportation at an even lower cost than rail, making it a popular mode for moving consumer goods from China to the United States.

For some companies, more than one mode of transportation is needed. Multimodal transportation involves companies using two or more types of transportation to move goods from origin to destination. For example, Apple may use air to ship iPhones to European airports but then trucks to continue the journey in getting iPhones to warehouses or distribution centers and retailers.

Modes of Transportation and Relative Factors

Mode	Speed	Cost	Accessibility
Trucking	Moderate	Low	High
Railroads	Slow	Low	Moderate
Water Carriers	Very slow	Very low	Moderate
Air Carriers	Fast	Very high	Low
Digital	Very fast	Very low	Very High

Table 11.2 Modes of Transportation and Relative Factors

Logistics Information Management

For a supply chain to be effective, manufacturers, suppliers, channel members, and customers need useful logistical information to help them make informed decisions. Logistics information management is the recording and reporting of useful information that channel members can analyze and validate during the process of moving products.

Channel members use a system to access and manage logistics information in real time. This information allows members to develop demand forecasts, where they predict what and how much consumers will demand in the future. This helps them make decisions about how much raw materials and other supplies they need to meet consumer demand.

Integrated Logistics Management

Integrated logistics management means that every element of logistics works cohesively to ensure that products flow efficiently and effectively from manufacturer to final consumer. Companies must first begin by defining the objectives of logistics management. For example, in procuring and distributing agricultural products, the supply chain might collectively set objectives that everyone along the chain commits to. They may, for example, set objectives to minimize costs, meet delivery times 95 percent of the time, and communicate openly and honestly about product availability and product flow consistently and systematically. Or they may strive cohesively to manage inventory more effectively to reduce the possibility of shortage or surplus.

Whatever objectives they set for the supply chain, each member strives to integrate its activities and information with the activities and information of other members to ensure cohesive and synergistic handling of products for the ultimate purpose of meeting the wants and needs of the consumer.

Third-Party Logistics (3PL) Providers

A third-party logistics provider is a company contracted by a channel member to handle one or more of the functional areas of logistics. 3PL providers can be warehouses, distribution centers, or fulfillment centers with expertise in managing certain logistical activities.

The advantages of working with 3PL providers is that logistics is their core competency, it is less expensive to outsource, and they offer flexibility. Owning warehouses and trucking systems requires a great deal of capital. Companies would much rather work with a 3PL provider than assume the financial risk of owning and operating their own transportation and warehousing systems.

Imagine if pet food maker Purina had to purchase its own warehousing and trucking business to store and move its goods all over the United States. It would be very costly and require a large capital commitment. In addition, 3PL providers offer the advantage of strategic location. They often market themselves as located in precisely the right zones that a supply chain needs to reach targeted consumers.

The downside of using 3PL providers is the loss of control. Manufacturers are essentially turning over logistics responsibilities to other companies, who assume control of communication and interaction with suppliers. To combat this, manufacturers should continuously analyze performance metrics and communicate with 3PL providers.

Knowledge Check

It’s time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

_____ makes the most sense for companies who need to transport products quickly.

a. Trucking
b. Air transportation
c. Rail transportation
d. Water transportation

2.

_____ is the planning, organizing, and controlling of the movement of raw materials and, ultimately, finished goods to end consumers.

a. Supply chain management
b. Logistics
c. A marketing channel
d. Transportation

3.

Which of the following best explains the importance and use of logistics information?

a. Companies use logistics information to sell to other companies that target similar consumers.
b. Companies use logistics information to market additional products to consumers.
c. Companies use logistics information to develop demand forecasts, conduct supply planning, and optimize supply chain effectiveness.
d. Companies rarely use logistics information to guide decision-making.

4.

_____ ensures that every element of logistics as part of the entire supply chain is part of a system that works cohesively to ensure that the wants and needs of final customers are met.

a. A marketing channel
b. Information management
c. Integrated marketing communication
d. Integrated logistics management

5.

Which of the following explains why companies use third-party logistics (3PL) providers to distribute products?

a. 3PL providers have the expertise, flexibility, and cost efficiencies that manufacturers do not possess in logistics.
b. 3PL providers understand how to promote a product more effectively than a company can.
c. 3PL providers own warehouses to help store and manage inventory.
d. 3 PL providers own and operate their own transportation system.

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11.8: Ethical Issues in Supply Chain Management

Learning Objectives

By the end of this section, you will be able to:

- Discuss the issue of the carbon footprint versus the speed of shipping.
- Discuss the issue of sourcing sustainably.

Carbon Footprint versus the Speed of Shipping

As companies strive to deliver the right products to the right customers at the right time, they face the competing interest of protecting the environment in which they operate.

Link to Learning: Environmental Responsibility in the Supply Chain

To learn more about environmental responsibility in the supply chain, watch the following video: Value, Speed, Environmental and Societal Impact – HP's Supply Chain.



Sustainability is a company's effort to reduce its impact on the environment as products move from source procurement through production through distribution to final consumers. Companies that practice sustainability balance their goal of speedy delivery with a commitment to reducing their carbon footprint. While traditional marketing channels focus on speed and cost, a sustainable channel also factors in goals aimed at mitigating the harm the supply chain causes to both humans and the environment.

Sourcing Sustainably

Sustainable sourcing is the process of considering suppliers' social, ethical, and environmental performance. The benefits of sourcing sustainably are improved reputation, brand protection, and an opportunity to attract new consumers and reach new markets. When a company claims it sources sustainably, it means that it is both transparent and ethical regarding the raw materials it uses in its products. It is not only transparent and ethical in its sourcing of materials but also environmentally conscious about its manufacturing process.

The shoe company Allbirds has sought to use natural instead of petroleum-based synthetic materials, which is what a majority of footwear is made from. By 2025, it aims for 75 percent of its shoes to be sustainably sourced using both natural and recycled raw materials (Allbirds, 2022).

Companies with a Conscience: Allbirds

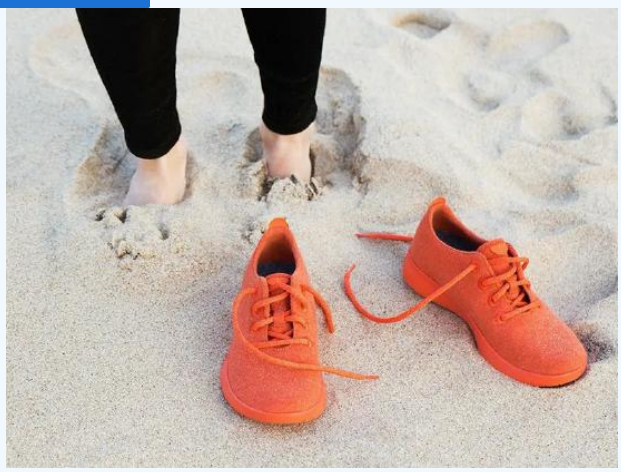


Figure 11.15 Sustainability is a core part of the Allbirds mission and marketing message. (credit: “Allbirds Shoes” by Guillermo Fernandes/flickr, Public Domain)

For decades, the footwear industry has missed the opportunity to look to Mother Nature for more sustainable footwear materials. Tim Brown, the founder of Allbirds, believed it was time to think differently (see Figure 11.15). With most shoe companies using petroleum-based raw materials, Brown sought to think more sustainably about offering a shoe that was both comfortable and environmentally friendly. Along with Joey Zwillinger, a product engineer and renewables guru, Brown developed a revolutionary wool fabric designed for footwear. Allbirds uses SweetFoam, a shoe sole material made from plant-based leather. To increase the shoe's durability, it also uses recycled synthetics where needed, which helps extend the product's life. Allbirds is continuously researching and developing ways to innovate around the sustainable sourcing of shoe materials with the goals of not only doubling the lifetime of its products but also reducing its carbon footprint related to raw materials by 25% in 2025 (Allbirds, 2022).

Sustainability is at the core of everything Allbirds does. While it is certainly interested in offering consumers a comfortable shoe, it also cares deeply about the process and materials involved in making that shoe comfortable (Allbirds, 2022).

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11.9: Chapter Summary

In this chapter, the functions and benefits of marketing channels were explored. Marketing channels play an important role in moving products from manufacturers to final consumers. Channel members, also known as intermediaries, specialize in specific activities that help the flow of products. They play a transactional role by bringing manufacturers and consumers together. They also help with the logistical distribution of products by sorting, storing, and bulk-breaking so consumers can purchase what they want in the desired quantity. Finally, they facilitate the flow of goods by, for example, offering consumers credit to make purchases. Channel members can include manufacturers, wholesalers, distributers, retailers, agents, brokers, and final consumers.

In addition, the types of marketing systems are also explored. Vertical marketing systems can include corporate, administered, and contractual. Moreover, some companies use a horizontal, multichannel, or omnichannel marketing system. Factors that dictate the type of channel a company chooses include target market coverage and the selection of an intensive, selective, or exclusive distribution channel.

Fulfillment of buyer requirements such as information, convenience, variety, and service pre- and post-purchase are also important determining factors. In addition, product-related factors such as perishability, product life-cycle stage, value, and the technical nature of a product are also to be considered when choosing a marketing channel. Lastly, the channel's profitability is a huge consideration given that companies aim to operate efficiently while delivering value to consumers.

Selecting, managing, and motivating channel members require a strategy to handle channel conflict. Evaluating channel members requires the use of metrics and includes inventory turnover rate, accuracy rate, the time it takes to ship, units that have to be stored, number of orders processed in a given perio , the percentage of on-time shipments, and the average number of delivery days.

The functions of supply chain management include purchasing, operations, logistics, resource management, and information workflow. Any or all of these functions can be outsourced. The decision requires careful consideration and evaluation of the cost/benefit ratio. Logistics functions such as warehousing, inventory management, and transportation can also be outsourced.

Finally, the ethical issues in supply chain management were discussed. They include carbon footprint vs. the speed of shipping and sourcing sustainably.

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11.10: Key Terms

accumulating | relates to intermediaries buying in bulk from different manufacturers

adjusting for discrepancy of assortment | occurs when an intermediary buys from manufacturers, then regroups products into different assortments based on what consumers are demanding from retailers

administered VMS | one type of vertical marketing system where there is no ownership of channel members but instead one member who is large enough to coordinate and manage the distribution activities of other channels members

agent | a type of intermediary who acts as an extension to the manufacturer

bulk and weight | the density and heaviness of one unit of product

bulk-breaking | occurs when an intermediary takes a large bundling of a manufacturer's product and breaks it down into single units to be distributed to retailers based on the retailer's order

business-to-business (B2B) | a market comprised of companies who buy from and/or sell to other companies

business-to-consumer (B2C) | a market comprised of companies that manufacture and sell products or services directly to a final consumer or end user

channel conflict | disagreements between companies in the marketing channel due to a competitive versus a collaborative mindset

channel length | relates to the number of intermediaries in the marketing channel

channel member (intermediary) | a company that works in a network with other companies to help gets products from manufacturers to final consumers

contractual VMS | independent companies that have joined together by contract for a mutually beneficial purpose

corporate VMS | when one member of the distribution channel owns the other members

customer-perceived value | the overall perception that a consumer has about a company, brand, or product and is measured by what the consumer is willing to pay in return for the features and benefits in the market offering

direct channel | when companies sell and distribute their products directly to consumers

direct marketing channel | when a manufacturer does not use intermediaries but rather involves the manufacturer distributing its market offering directly to consumers

disintermediation | the process of removing an intermediary from a marketing channel

distribution | the process of making products and services available and accessible to consumers to purchase

distributor | a type of intermediary that takes ownership of the product and tends to align itself closely with a manufacturer

exclusive distribution | a strategy that involves allowing a limited number of intermediaries to distribute a company's market offering

facilitating functions | activities such as financing and information sharing in the marketing channel

final consumer | the end user of a good or service

horizontal conflict | when there is disagreement among firms at the same level in the marketing channel

horizontal marketing system | a group of unrelated companies that offer products and services in a shared space

indirect channel | involves the utilization of one or more intermediaries to distribute a market offering to consumers

intensive distribution | a distribution strategy that entails distributing a company's market offering through all possible intermediaries

inventory management | a function that involves identifying the type of inventory and how much a company has on hand at any given time

inventory turnover rate | a metric that measures how quickly inventory is turned over, or sold

logistical functions | the handling, packing, inventorying, transporting, warehousing, and ensuring the security of products as they make their way to the customer

logistics | the coordination of all supply chain activities, such as warehousing, inventory management, and transportation

marketing channel | system of people, organizations, and activities that work together to make goods and services available to consumers for use

multichannel distribution system | where a single company sets up multiple distribution channels to reach customers

omnichannel marketing system | multichannel approach whereby companies give consumers a variety of ways to purchase, receive, and return products

order accuracy rate | a metric that measures the percentage of orders that are processed, fulfilled, and shipped to consumers without any errors

percentage of on-time shipments | a metric used to evaluate how well a channel member meets its promise of delivering goods on time

perishability | relates to the likelihood that a product will spoil, decay, or expire if not used in a timely manner

post-sale service | all activities provided by a company that reinforce the value of the product or service for the buyer

pre-sale service | all activities provided by a company that help a buyer make a purchase decision

producer | a company that supplies the raw materials that manufacturers need to create consumer products

producer to retailer to consumer channel | when manufacturers or producers sell to retailers without the use of wholesalers or distributors

product life cycle | the various stages that a product goes through from its introduction phase, to its growth and maturity phase, and in some cases to its decline phase

purchasing | the process of buying materials needed to manufacture products

retailer | a type of intermediary where retailers take ownership of the product and their sole focus is on reaching the end user or customer directly

selective distribution | a strategy that includes choosing more than one, but fewer than all possible intermediaries to distribute a company's market offering

standardized | products that have no difference in how they are manufactured

supply chain | a network between a company and its suppliers to produce and distribute a specific product to the final buyer

supply chain management | all members and activities from the procurement and transformation of raw materials into finished goods through their distribution to targeted consumers

sustainability | a company's effort to reduce its impact on the environment as products move from source procurement through production through distribution to final consumers

sustainable sourcing | the process of considering suppliers' social, ethical, and environmental performance

target market coverage | resources and capabilities needed to reach consumers in a company's target market

third-party logistics (3PL) provider | a company that is contracted by a channel member to handle one or more of the functional areas of logistics; often warehouses, distribution centers, or fulfillment centers that have expertise in managing certain logistical activities

time to ship | also known as order cycle time, the length of time from when a customer places an order to when it reaches them

total number of orders | the sum of all orders that a company received in a given time period

total units in storage | a metric used to evaluate warehouse efficiency that changes as items are sold and leave the warehouse and new inventory moves in

transactional functions | buying, selling, and risk-bearing that goes along with the movement of products along the marketing channel

unit value | the price that a company charges for one unit or item

vertical conflict | a conflict that exists between different levels of a vertical channel

vertical marketing system | companies in the marketing channel that work together in a coordinated, collaborative, and customer-centric way

warehousing | the stocking, maintaining, and controlling of products while they await the next step in their journey to the final consumer

wholesaler | similar to distributors in that they take ownership of products; buys products in large quantities for the purpose of distributing an assortment of products to retailers

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11.11: Applied Marketing Knowledge- Discussion Questions

1. What are the methods used to evaluate channel members? Why is this important?
2. Explain the various forms of marketing systems. What factors go into the decision regarding which system is best suited to the given organization?
3. Target market coverage is broken down into intensive, selective, and exclusive distribution. Evaluate which form of coverage works for what category of products and why, and give an example of each form.
4. List the different forms of transportation for moving goods. What are the positives and negatives for each form? Can you think of a way to reduce the risk?

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11.12: Critical Thinking Exercises

1. Create a strategy for managing channel conflict within a marketing channel.
2. Considering what we have learned in the last several years about supply chain interruption, along with what we have covered in this chapter, what are some of the strategies a company can use to reduce risk?
3. Evaluate alternatives and incentives that companies/marketers can offer customers to manage the speed of shipping while reducing the carbon footprint.

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11.13: Building Your Personal Brand

Consider what sustainability and social responsibility mean to you. How do they impact your life and your activities? Is it in a positive, negative, or neutral way?

Let this information guide you in creating your authentic self. Develop your awareness of the ways that you can support the movements that speak to you. For instance, if you have strong beliefs in helping to create a cleaner environment, find activities that support that. Think clean stream, neighborhood beautification, or teaching children recycling, all the while making sure that you are genuine in upholding those concepts in your life. The list of opportunities is multilayered and unlimited.

Write 200–400 words outlining your personal brand as it relates to sustainability and social responsibility. How is your personal brand impacted by these concepts now? With these concepts in mind, how would you like your personal brand to evolve?

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11.14: What Do Marketers Do?

Contact one of the following businesses and ask to speak to a person in the supply chain or logistics department. You might have to go through several people to actually get to the one that can best answer your questions. The goal with this exercise is to ask questions regarding the logistics in these companies to better understand the complex process. Every logistics department is involved in the movement of goods (the coming and/or going), but they vary in how they go about it.

- A local warehouse
- UPS
- FedEx
- An Amazon.com warehouse (they have multiple layers that you can contact as well as their logistics partner program)
- A trucking company

When you speak to the professional, be prepared with questions that will help you understand this position. Here are a handful of questions to get you started:

1. What is your job title and function?
2. How would you describe your department?
3. How did you obtain your position?
4. What skills, background, or degree are needed to do this type of work?
5. What are the main challenges faced by the department in the job?
6. Are you aware of differences in how you run your operations versus a similar company? If yes, can you outline examples?

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11.15: Closing Company Case

Global Containers & Custom Packaging Inc.

It happens without much thinking—you go online, click on the item, add it to your cart, pay for it, and then wait for it to arrive, usually in just a few days. And although you don't give it much thought, there is a lot going on when making a purchase. It may appear that the product "just arrives" at your location, but it's not quite that simple. The manufacturer must decide how to best ship the product, whether by truck, ship, air or some combination of all three. Also, depending on the size of the company that is purchasing the product and the size of the order of the product, it might stop at a wholesaler before ending up on retail shelves or in your mailbox.

One company that is working "behind the scenes" to ensure that your package arrives intact and on time is Global Containers and Custom Packaging. Global Containers and Custom Packaging is a full-service logistics company. It offers logistics and warehouse management, packaging distribution, and quality inspection and sorting (Global Containers & Custom Packaging, Inc., 2024).

Strategically headquartered along the US-Mexico border in El Paso, Texas, Global Containers and Custom Packaging offers local packaging distribution services that provide value and solutions to the retail and maquiladora market. Customers include companies like Amazon.com, Hewlett Packard, Honeywell, Align Technology (the makers of the Invisalign system for straightening teeth), and ASO (a leader in consumer first-aid products).

Started in 2009, the company was founded to provide a full-service logistics solution. José Ochoa, one of the company's founders, started as an industrial engineer and saw a need for a full-service logistics solution offering a high level of customer service. Some of the solutions that the company offers are just-in-time inventory management, report management, flexibility in hours (it will receive a truck or ship a product after hours or on the weekend with no extra cost to the client—a service that is practically unheard of in this industry), traceability of consumption behavior, and coming soon, accepting crypto payments.

Managing all of the pieces of a logistics solution can be tricky, especially in an environment with unprecedented shipping delays. Global Containers and Custom Packaging takes a proactive approach to managing its clients' business—it will advise customers on upcoming delays on products that it doesn't currently have in inventory. By staying in constant contact with the client, it has kept to a minimum delays and bottlenecks caused by missing items. All this is accomplished while the industry has seen shipping delays skyrocket.

It's not surprising given the company's proactive approach to managing delays, offering superior customer service and comprehensive offerings, that it has received the prestigious Bridge Accelerator Award, an award focused on businesses that are looking for ways to grow and innovate in the Paso del Norte region (Tecma, 2020).

Case Questions

1. Is the marketing channel a direct channel or indirect channel in this case? Why?
2. Global Containers and Custom Packaging provides trucking shipping solutions primarily between Mexico and the United States. What are the six factors impacting the choice of channel? Which have the most important impact in this case?
3. What are the main product-related factors that have an impact on the choice to ship products via truck from the United States to Mexico?
4. Name the different supply chain management levels that Global Containers and Custom Packaging provides.

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CHAPTER OVERVIEW

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12.1: In the Spotlight

Peloton started in 2012 with a group of ambitious people and the mission to “use technology and design to connect the world through fitness, empowering people to be the best version of themselves anywhere, anytime” (Peloton, 2022). In 2019, Peloton, still a relatively new company, released a holiday television ad that put it front and center in a very controversial spot. The ad opens with a mother and daughter walking down a set of stairs to open Christmas presents. You can see the snow outside through the windows of the house. At the bottom of the stairs is her husband waiting with a Christmas gift.

“A PELOTON?!?” she shrieks—but it isn’t immediately clear if she is happy with the gift. The commercial progresses with the mother documenting her fitness journey. She rides after work. She rides early in the morning. She rides through the seasons as you watch them change through the windows of the house.



Figure 12.1 Peloton uses an integrated marketing strategy to reach consumers through multiple channels. (credit: modification of work “Going Backstage at Peloton HQ” by Jurvetson/flickr, CC BY 2.0)

The audience watches as she records her fitness journey on her Peloton. Toward the end of the ad, a Peloton instructor gives the young mother a name in a workout class by saying “Let’s go, Grace from Boston!” As the commercial ends, Grace shares her journey with her husband. It turns out she was talking to him the whole time.

“A year ago, I didn’t realize how much this would change me,” she says, now a true believer. After her year-long journey and her new “fit” state, Grace thanks her husband for the gift and how it transformed her.

Consumers immediately took to social media to accuse Peloton of promoting a negative body image, economic privilege, and archaic marital relationships. The controversial ad sparked a significant spike in social media engagement. The brand and the ad were widely publicized in the media. The ad and the controversy definitely produced significant brand awareness and an intense interest in the benefits of using a Peloton.

Once the controversy died down, Peloton was a well-known brand name. And with the lockdowns that came with the COVID-19 pandemic, consumers around the world were seeking options for in-home exercise. Peloton was poised to become the market leader with a reputation as a premier means of in-home workouts.

Much of Peloton’s success is a result of its robust integrated marketing strategy. Consumers learn about Peloton through a variety of methods: YouTube ads, television commercials, mall kiosks, social media posts, and web content. Though the organization does its best to develop its promotional messages, its best marketing strategy is the excellent word of mouth and rave reviews from all its loyal and satisfied customers. Using multiple avenues for reaching customers is known as an integrated marketing communication strategy, the core concept you’ll learn more about in this chapter.

Throughout 2020 and into 2021, during the height of the pandemic, Peloton experienced a 172% increase in sales (Valinsky, 2020). But quick growth can create other problems. As Peloton’s popularity exploded during the COVID-19 pandemic, management issues began to surface. In February of 2022, Peloton saw a 73% drop in its stock price, which led to the ousting of founding partner and CEO John Foley. Marketing communications can bring much-needed brand awareness, but it’s been said that great marketing can quickly kill a bad company. What is next for the twice-named “CNBC Disrupter 50 Company” (Thomas, 2022).

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12.2: The Promotion Mix and Its Elements

Learning Objectives

By the end of this section, you will be able to:

- Define the promotion mix and explain its importance.
- List and describe the elements of the promotion mix.

What Is the Promotion Mix?

We are all consumers, and we have all been the target of promotional campaigns. To connect with consumers of a target market, companies conduct extensive market research so that they may better understand the consumer. When companies understand the consumer, they can better structure a message to appeal to the consumer and also find the best channels for reaching the customer.

The created messages aim to get consumers' attention. Sometimes, they create awareness of a new event, a new product, a new idea, or a place to visit. Sometimes, they ask consumers to make a purchase. Marketing promotion is all around us.

According to the marketing firm Yankelovich Inc., the average digitally connected person is exposed to around 5,000 ads per day (Johnson, 2014). Among the biggest promotional spenders in the United States is Disney (Statista, 2022a). Disney produces ads for everything from its movies and toys to its vacation clubs and theme parks. Although we should be flattered that these companies are thinking of us and trying to figure out how to reach us and what messages they should send, many consumers are busy trying to figure out how to shut out the messages.

When you sit down to watch television, you are typically exposed to ads that a company believes that you will respond to based on the research it has done about the audience watching the show you tuned in to watch. During your time scrolling through your news feed on Facebook, you are being served ads that correspond to your Internet search history and even products you may have mentioned while your phone was on and your news feed open. Digital advertising relies heavily on algorithms of your search history and site visits.

As recipients of these marketing messages, many consumers believe that marketing is only advertising or sales. However, advertising and sales are simply two options in a marketer's arsenal of communication tools used to connect with the target market. Developing a marketing communications strategy is something marketers should only do after they have developed the rest of the marketing mix.

In fact, marketers have a wide variety of strategies to use from the overall promotional mix (see Figure 12.2). Most companies choose to use a combination of the promotional mix methods to create an integrated marketing communication message that reaches the customer in many different ways. When the messaging is integrated, the consumer receives the same message no matter which method of promotion is chosen. If the consumer is watching the news and hears a story about the company or product, public relations has impacted them. If they then scroll through their social media accounts at the end of the day and see an ad for the same product, advertising has impacted them. When they sort through their email and have a message from the company, they have received a direct marketing communication.

No longer does promotion need to rely heavily on just one method of marketing communication. Marketers can be much more targeted and more cost-effective in the promotional methods they choose. Using a combination of methods to send the same message allows the marketer to be more strategic in their messaging and in their budgeting.

The best products are nothing until the consumer knows about them. Without good promotion, the best products are just secrets. We all have things we want to say, and on any given day, we make phone calls, create Instagram posts, upload TikTok videos, send emails, shoot off text messages, and talk face-to-face with people. And just like us, marketers also have things to say. Usually, they want to tell consumers about their new brand extension of Reese's, a trade-in allowance for a new Toyota Camry that just hit the car lot or even a buy-one-get-one-free promotion for your Starbucks latte. How marketers decide to say and send the message is the promotion mix.

The promotion mix consists of the strategies marketers use to communicate with their customers. With combined strategies, the promotion mix creates a powerful method of connecting with the customer and conveying all the other marketing mix elements for

a holistic marketing approach. The promotion mix allows marketers to reach customers in many different ways, ensuring that the message is seen, heard, and understood. After determining and defining the target market, creating a good product, selecting a pricing strategy and optimal price, and deciding on the distribution method, the marketer is ready to communicate with the customer.

Messages sent by multiple methods provide a better opportunity for consumers to see and hear the message and make the connection back to the company. When a message is only sent by one method, the potential for interference, noise, and avoidance is more likely to occur. Marketers use a multichannel approach to send an integrated message.



Figure 12.2 The Promotional Mix (CC BY 4.0; Rice University & OpenStax)

Promotion Mix Defined

The full set of strategies that combine to make up the promotion mix include advertising, sales promotion, personal selling, public relations, direct marketing, and Internet/digital marketing. Each of these methods is intended to produce different results when used. Combining the elements creates an overall integrated message designed to reach consumers at various points in their path to purchase. Marketers call this integrated messaging integrated marketing communications.

The Importance of the Promotion Mix

Of all the marketing mix variables, the promotion mix can be further divided into different message channels that allow for connection and communication with the customer. When the promotion connects with the customer, it is the moment when all the marketing activities come together. When the messaging and method of delivery reach the customer and create the desired result, the marketing has achieved its purpose.

The strategies in the promotion mix provide the marketer with an arsenal of methods to achieve their marketing objectives, such as increasing sales or introducing a new product. However, consumers are bombarded with marketing messages throughout the day, and these are combined with the business of everyday life events like news, music, work, chores, family, and friends. With this busy pace and activity, the consumer is very difficult to reach. For busy consumers, one communication method alone is not likely to cut through the clutter and noise to reach them and make an impact. Marketers must combine the various communication elements to connect with the customer and meet the communication objective.

Elements of the Promotion Mix

When analyzed individually, each of the promotional mix elements is powerful. They each have a part to play in the overall success of a company. Combined and carefully executed, they create powerful brands with legions of loyal fans and followers—the

consumers. What do each of these promotional mix elements do, and how do they contribute to connecting with the consumer?

Advertising

Advertising is a multibillion-dollar industry. According to Statista, in 2020 alone, worldwide advertising spending reached $586 billion (Statista, 2022b). Advertising is paid, non-personal communication from an identified source that allows for creative messaging about all aspects of a product, service, idea, person, or place. Consumers are able to quickly point to advertising as a form of promotion. It is perhaps the element of the promotional mix that we are most familiar with and the one we have been most exposed to throughout every phase of our lives.

From our very first commercial showing how much fun it is to build with LEGO to imagery of a toddler walking the Disney streets with a costumed princess and Cinderella's castle in the foreground, we know what advertising looks like. Although advertising can take many forms, it is important to note that advertising consists of carefully designed messaging from the company to the consumer. Advertising is meant to produce a response in the viewer. And advertising is all about what the company wants to tell us.

Advertising can be the pop-up window while we are doing a Google search. It can be the Chick-fil-A billboard we pass every day on our way to work. Advertising can be the trailer we watch before our movie starts. And advertising can be the fun Doritos spots we look forward to during the annual Super Bowl.

While advertising can be a costly means of communication with the customer, it is relatively inexpensive based on the number of people reached. When NBC priced the 2021 Super Bowl at $6 million for a 30-second spot, with a record 96 million viewers, the price averaged around $0.06 per person reached (Steinberg, 2021).

Advertising is effective based on the frequency with which it is usually viewed. And because of the media, the advertising message can be repeated many times, depending on the budget. Its repeatability means that production costs have a better return on investment (ROI) the more an ad is used, and the recall of the ad increases significantly.

Sales Promotion

Most consumers love a sales promotion. It creates a feeling of excitement and often includes a bit of a gaming experience in the purchase decision. Marketers value the benefits of sales promotions because the results are immediate, and they have a wide variety of options when using this promotional mix element. A sales promotion is a method for a marketer to induce sales in the short term. Sales promotion is not a long-term strategy but is geared toward specific calls to action, typically aimed at getting the consumer to buy something immediately or enter a sweepstakes or contest (see Figure 12.3).



Figure 12.3 Sales discounts are a promotional mix element that marketers use to appeal to customers and to deliver short-term sales for the company. (credit: "Sales Promotion at a Shop Window in Munich" by Henning Schlottmann/Wikimedia Commons, CC BY 4.0)

Using sales promotions can be an effective method of getting the consumer to try a product or buy more of a product, or it can be a way to quickly deplete an inventory to make way for new products.

Although sales promotions have many tactics that the marketer can employ, several commonly used examples of sales promotion include the following:

- Buy One Get One (BOGO). When Domino's Pizza offers customers a free pizza when they buy a medium one-topping pizza, this BOGO deal is used to immediately increase Domino's pizza sales. Consumers may buy Domino's over other pizza brands because they can get more pizza for their money.
- Enter to Win. PepsiCo needed to gain traction with the millennial audience. It needed to boost the Lay's brand of potato chips and compete with new flavorful organic chips that were getting market share in the category once dominated by Lay's. To generate new interest in its brand, Lay's launched a campaign for consumers to create a new flavor. New flavors could be entered, Lay's would create samples, and the winner of the new chip flavor would win $1 million.
- Coupons. This method of promotion has come a long way with the use of technology. While consumers can still "clip" coupons and redeem them at the point of sale to receive savings on the products they are buying, many companies are making coupons available through mobile apps and discount codes to apply at the point of sale through an e-commerce store. Using coupons is a great method of inducing trial of a new product and increasing market share.

For National Ice Cream Day (see Figure 12.4), Cumberland Farms wanted to increase the sales of its house brand of ice cream, Ultimate Scoop (Gustafson, 2022). It offered consumers a digital coupon for $1 off a pint of the ice cream. Cumberland Farms' existing customers received their coupon via text message, and new customers could text in to get the coupon.



Figure 12.4 Cumberland Farms used a coupon promotional strategy to increase sales of its ice cream. (credit: "Ice Cream Cone" by Sean MacEntee/flickr, CC BY 2.0)

- Rebates. Companies offer rebates to induce purchase and generally to receive something in return besides the sale. When a rebate is offered for the purchase of an Energy Star–certified product, the consumer gets a designated dollar amount off the price of the product, and in turn, they must submit the proof of purchase along with identifying information about themselves.

Personal Selling

Personal selling is one of the most expensive forms of promotion because it is a one-on-one, person-to-person communication with the customer. The role of the salesperson is to inform and persuade the customer. This is usually done in what is termed an exchange situation. The salesperson is exchanging knowledge and something of value, while the customer is exchanging money for the item of value. Personal selling is ideal for products that can be customized, are complex, and have a relatively high price point.

Typically, personal selling is most often used in business-to-business (B2B) markets. Business buyers have longer buying cycles, more complex buying situations, and larger budgets. The pharmaceutical industry is well-known for using personal selling. Company representatives must have a high degree of training and knowledge about the products they sell to physicians and hospitals. It is also very common to have a sales force to sell equipment and machinery to manufacturing plants. Businesses rely on the knowledge and service of the sales force to sell their products.

In the business-to-consumer (B2C) market, personal selling is used for items that cost more or have a high degree of variation. We find sales representatives when we buy automobiles, home improvement products, and insurance. The sales representative's job is to determine our needs and provide solutions that fill those needs.

Compared with advertising, which has a very general message directed to a large audience, personal selling is an individualized message for one or several people within the buying group. When evaluating the costs of personal selling, it is typically hundreds to thousands of dollars per person reached.

The process of personal selling can be time-consuming. The process of selling and the tasks of the sales force can be complex. The sales professional is tasked with prospecting to identify the right customers and then qualifying them to make certain they are a good fit for the product.

It is not uncommon to hear people say, “You talk a good game. You could sell to anyone.” In reality, salespeople do not want to talk people into a product. A good sales force only wants to sell to customers who want and need the product. The best sales force knows that when the customer is a good fit, they will bring repeat business and good word of mouth.

While some salespeople have a natural inclination for selling, others are highly skilled with technical knowledge of the products they are selling. Understanding customers, the buying situation, and the product being sold are a few of the skills needed to master the art of selling. Good sales professionals know that the real work of the sale is to service the needs of the client long after the sale has been made.

Public Relations

Public relations is a non-paid, non-personal form of promotion. Because it is non-paid, it has a high degree of credibility and is beneficial because a typically credible, non-biased third party is the messenger. While there are many tactics that marketers might use for public relations, some of the most commonly used include press releases, press conferences, events, and annual reports.

Many of the other promotional tools focus specifically on communication with the customer. By contrast, public relations includes efforts to work with the community where it operates, media, government officials, educators, and potential investors.

When Nordstrom opened its flagship store in Manhattan, it unlocked the doors a few days early for a VIP celebration that included Vogue’s editor, Anna Wintour, along with actresses, models, and designers. Some noted attendees included Zoe Saldana, Katie Holmes, Olivia Wilde, Karlie Kloss, Joan Smalls, Winnie Harlow, Tory Burch, Tommy Hilfiger, and Stacey Bendet of Alice + Olivia. Guests formed long lines around the store in an attempt to access the party (Trudeau, 2022).

TOMS Shoes has long been a leader in cause marketing (see Figure 12.5). When you buy from TOMS, one-third of the profits go to Grassroot Good (TOMS, 2022). TOMS’ annual report highlights the people the company helps and how it helps them. Investors and any interested parties receive the annual report that details the work TOMS does right along with the profits it is making.



Figure 12.5 TOMS Shoes has effectively utilized a cause strategy, which has led to positive public relations with customers. (credit: “Toms Shoes at OhNo!Doom” by OhNo!Doom Collective/flickr, CC BY 2.0)

When celebrities wind up in the news, it is public relations, and it works to keep their name before the public and their fans. So, the headline that hits the front page of the *New York Times* or is a leading story on the NBC nightly news creates publicity for the celebrity. Businesses also use publicity. A business might have a product as part of a movie, such as BMW vehicles showing up in 37 of the highest-grossing movies of 2018 (Stewart & Campbell, 2022).

Public relations can also include crisis communication when negative issues occur. One of the biggest public relations issues happened in 1982 to Tylenol. A malicious person or persons in the Chicago area tampered with a few bottles of Tylenol Extra Strength capsules by replacing the actual capsules with cyanide-laced capsules. Consumers who unwittingly bought the Tylenol ended up dead. Johnson & Johnson, the maker of Tylenol, faced issues that could easily have destroyed its business. The issue was the leading story for every news outlet.

Johnson & Johnson faced the issue head-on and boldly moved to remove Tylenol from all shelves. The recall resulted in the removal of 30 million products from store shelves (Rehak, 2022). In the end, Tylenol was a hero who won the trust of a nation.

Direct Marketing

Direct marketing allows for direct communication with the customer. Messages can be tailored to specific market segments and even personalized toward individual consumers. Early tactics of direct marketing included telephone and mail; however, technology has allowed for new methods of connecting with the customer, including text messaging and email marketing.

In 2019, the Data & Marketing Association (DMA) reported that the direct mail industry was valued at $44.2 billion (Robinson, 2021). It's the second-largest channel for ad spend in the United States, and it continues to grow. Transformed by technology, direct marketing is finding new methods to connect with the customer. Most connection includes a call to action that provides for immediate feedback on the effectiveness of the method.

Internet/Digital Marketing

Internet/digital marketing uses technology to reach customers at many different points of interaction. Marketers have a variety of methods and tools to reach their customers and brand products, including websites, landing pages, social media pages, widgets, and customer relationship management (CRM) systems. All the digital properties work together to drive traffic to the branded properties and engage the consumers.

Digital marketing is geared toward very specific market segments and is primarily interactive. Think of digital marketing as the mechanism that produces the immediate interaction with the customer and produces some type of feedback. Digital is considered two-way communication between the company and the customer. During the early stages of launching the SPANX brand, Sara Blakely primarily used digital marketing with a heavy emphasis on social media (O'Connor, 2012). She involved her female friends in her target market demographic and had them post about the brand through their social media.

By contrast, Internet marketing is sending a message to a mass audience. The Internet is used for digital marketing and includes websites and digital ads as well as the two-way communication of social media. Other forms of digital marketing include mobile technology such as SMS and mobile apps.

When a consumer completes a Google search for shoes, jumps to Facebook to scroll their feed, and is served shoe ads from Nordstrom, Macy's, and Steve Madden, they have been targeted by these shoe companies. The targeting, immediacy, and changeability of the messaging make digital a quick and efficient method of reaching consumers. Digital promotional tools are extremely effective and can cut through the clutter and reach the consumers when they are in the demand phase of the buying process and have signaled an intent to purchase.

According to Gartner's 2020 chief marketing officer (CMO) survey, two-thirds of promotional budgets are being spent on digital (Ramaswami, 2020). Because of the tremendous analytics available, marketers can assess the effectiveness immediately. Messages can be tested for effectiveness and quickly changed if they are not producing results. It is very difficult to get the same quick feedback with any of the other forms of promotion. Through careful tracking and robust customer relationship management (CRM) systems, marketers can quickly promote products, increase brand awareness, and move consumers down the sales funnel to instantly purchase through online e-commerce sites.

Utilizing mobile app technology, marketers can push promotions to customers while segmenting them by their behaviors and simultaneously filling their CRM with insights and analytics that can help drive promotions and sales.

Careers In Marketing: Integrated Marketing Career

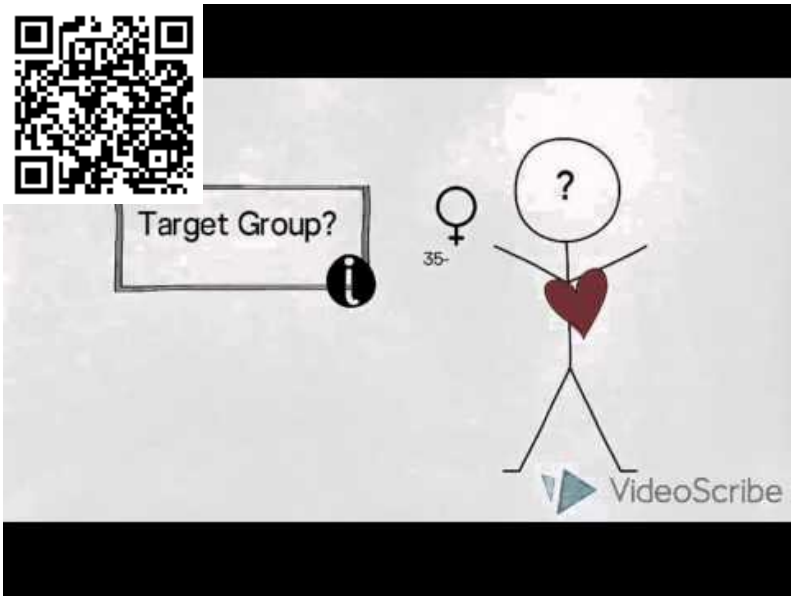
An integrated marketing communications (IMC) professional builds and manages campaigns that integrate all the facets of marketing—advertising, public relations, digital campaigns, sales, etc. If you're interested in this job role, check out this article to learn about the qualifications, experience, and salary. You can also refer to programs offered by educational organizations specializing in integrated marketing. A few examples of those educational organizations include San Diego State University, Marist, Northwestern, and Eastern Michigan University, to name a few. Check out this list of the Best Marketing Communication Colleges according to Best Accredited Colleges.

Additional resources to explore include the following video:

- IMC Careers from Northwestern's IMC director



- Introduction to IMC geared toward marketing management students



- Evolution of IMC from Marist College



Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

The goal of an integrated marketing communications (IMC) program is to _____.

a. have all of a company's marketing and promotional activities project a consistent image and message to its target market
b. control all facets of a product's distribution
c. communicate with customers only through television commercials
d. have complete control over all facets of the marketing mix

2.

One of the promotional mix methods is advertising. Advertising may be defined as any _____.

a. communications about a good, service, or company
b. paid forms of nonpersonal communication about a good, service, or company
c. communication that moves the product from the wholesaler to the retailer
d. communication from a company sales representative to a company buyer

3.

If you have a new brand and want to reach a large consumer audience, which promotional mix element would probably be used?

a. Sales promotion
b. Personal selling
c. Advertising
d. Public relations

4.

Dunkin' includes coupons in its print magazine advertisements. This is an example of _____.

a. sales promotion
b. public relations
c. personal selling
d. Internet/digital promotion

5.

When a singer who is voted off *The Voice* television series appears on *Today* to discuss the experience, it is an example of _____.

a. advertising
b. public relations
c. sales promotion
d. direct marketing

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12.3: The Communication Process

Learning Objectives

By the end of this section, you will be able to:

- Describe the communication process.
- Identify and discuss each element of the communication process.

Communication Process Defined

At first glance, the communication process seems simple. However, a deeper look shows the complexity and issues involved with communicating. When choosing how to send a message to the consumer, it is important to understand how the communication process works. All forms of marketing promotion are methods of communication from the company to the consumer. No matter which method of promotion you use, the elements of the communication process are important to recognize and consider.

Understanding how communication flows helps the marketer to create better messaging, better media, and a response system that facilitates the communication objective. Sending and receiving a message are only two small parts of the complex system marketers work with when trying to send promotional messages to consumers.

Within the complex communication system are the variables of the sender, encoding, messaging, media, the receiver, decoding, and the feedback loop—all while contending with constant noise. Out of all the elements of the communication process, only the sender, the encoding, the message, and the media are in the marketer's control. All of the other elements are outside of what marketing can control. Marketers must understand all of the other aspects of the communication process to mitigate the unknown and meet the campaign objectives.

When we consider communication, we are simply transmitting information. On the granular level, the communication process is how the message gets created, sent, and received. The elements of the communication process are consistent no matter the message or how you choose to send it. However, the variations in messaging, medium, and receiver all affect the encoding process and the feedback loop (see Figure 12.6).

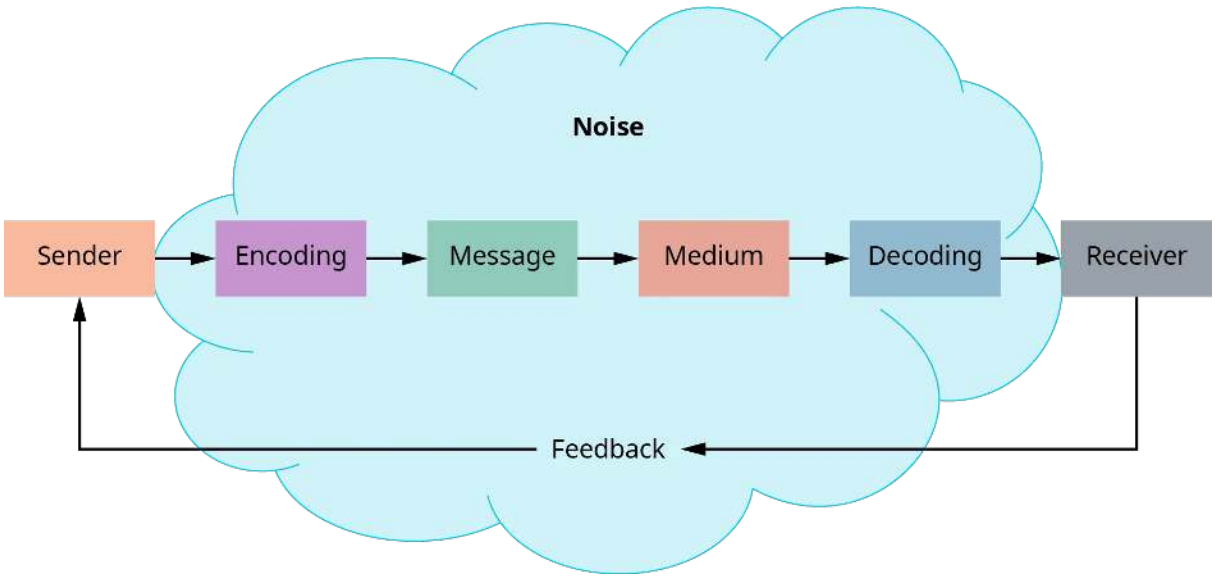


Figure 12.6 The Communication Process (CC BY 4.0; Rice University & OpenStax)

The Elements of the Communication Process

For communication to happen, it must go through a process. Both personal and professional communication are comprised of several elements that occur for the exchange of information. For communication to happen, there must be a sender and a receiver. Between the sender and the receiver is the message itself and the channel by which it is sent. All the variables in between include

the elements that are uncontrollable and, if not managed well, can cause issues. These elements include the encoding and decoding of the message as well as the noise that gets in the way and the feedback that helps us gauge the success or failure of the message.

The Sender

The sender is the source of the message. This can be the company, the marketer, or the hired talent for a commercial. For example, when PepsiCo signed a multiyear contract with Beyoncé to be a brand ambassador, Pepsi made Beyoncé the sender of its messaging (Casserly, 2012).

Encoding

How the message gets developed is the creative process marketers go through to put meaning behind the information they want to share with their customer. The process of creating the message is known as encoding. The process of putting the thoughts and ideas into words or symbols is encoding. Encoding could be writing a press release, developing a tag line, writing ad copy, creating a jingle, or designing a brand symbol. How a marketer chooses to encode the message should depend on the audience's characteristics.

The Message

From the encoding process, a message is developed. For marketers, the goal is to have the message reflect the value the product provides to the consumer. When Nike tells its customers to “Just Do It,” it has created a message. Dove’s “Real Beauty” campaign created a message that beauty comes in many different forms.

The Medium

Once the marketer has the message developed, they need to send it. The medium is how the message is delivered. The message could be sent through the television in the form of an advertisement or a news story. The message could travel to the customer through an email directly in the customer’s inbox. The message could also be a salesperson describing why the new Ford Broncos are safe and dependable.

The Receiver

In marketing, the customer is generally the receiver. However, messaging can also be delivered to groups and organizations. When Comcast develops its annual report and sends it to its group of investors, the investors are the receivers of the message. If Chick-fil-A creates a billboard saying to “Eat More Chicken,” the travelers passing the billboard are the receivers.

Decoding

Decoding is the process of unpacking the message and giving it meaning. It is the receiver’s understanding of the message that has been sent. Many things affect the process of decoding, some of which include the receiver’s knowledge and experience. To create the most effective messages and delivery, the marketer must extensively research and understand the receiver. When the consumer hears the message “Red Bull gives you wings,” the company (sender) wants to convey that the product will give the customer (receiver) the energy to do whatever they want to do. If the receiver believes that they can actually fly after drinking Red Bull, there was an error in the decoding process.

Feedback

The feedback loop tells the sender if the receiver understood the message as they intended when they encoded it. Feedback is the checkpoint on a specific call to action. It can be a return email, a click to a website, or a purchase using a coupon. When the feedback loop is complete, the marketer has data regarding the communication process.

Personal selling has the richest method of feedback. If the salesperson is in front of the receiver and can hear their voice when they respond and can see their body language, they have a complete understanding of whether the encoding was effective when the decoding takes place. If the marketer sends a coupon to a consumer via a mobile app and the consumer redeems the coupon at the point of purchase, the redemption is the feedback loop for the sales promotion.

Noise

In the communication process, many elements are outside of the marketer’s control. The biggest factor that can be a point of conflict for the marketer is the noise that interferes with the receiver’s ability to get the message, decode it, and provide feedback.

All the elements that get in the way of the receiver getting the message are noise. Noise can be the distractions that happen while the ad plays during an episode of *Seal Team*—things such as getting a snack, talking to a family member or friend, or surfing channels just as the ad is playing. Noise can be the other thousands of messages targeting the same receiver and vying for their attention.

The marketer's job is to understand the various sources of noise and work to create encoding and mediums that will help to reduce the interference. It is typically believed that because of all the noise, the receiver must be exposed to the message on average 7–10 times before they take action toward the message.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

When a message is created, and the company chooses to have a celebrity as the spokesperson, what does the celebrity represent in the communication process?

a. Sender
b. Feedback loop
c. Medium
d. Noise

2.

Which of the following is considered noise in the communication process?

a. The sender sings a jingle.
b. A special news bulletin interrupts a paid ad.
c. The consumer calls the 800 telephone number displayed in the advertisement.
d. The consumer clips the coupon from a mailer.

3.

A popular form of communicating is through television advertisements. Which element of the communication process is the television advertisement?

a. Noise
b. Sender
c. Medium
d. Feedback loop

4.

Putting thoughts, ideas, or information together in symbolic form is called _____.

a. encoding
b. noise
c. decoding
d. sender

5.

The Tennessee Department of Tourist Development purchased an ad for *Southern Living.* The ad encouraged people to choose the state of Tennessee for summer vacations. Along with beautiful, scenic photos of Tennessee, the ad includes the tagline "Tennessee sounds good to me." In this print ad, the source of the advertising message is _____.

a. the Tennessee Department of Tourist Development
b. *Southern Living* magazine
c. the people in the scenic pictures

d. readers of the magazine

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12.4: Integrated Marketing Communications

Learning Objectives

By the end of this section, you will be able to:

- Define integrated marketing communications (IMC).
- Discuss why IMC is important in marketing.

Integrated Marketing Communications (IMC) Defined

Now that you are familiar with the various forms of marketing promotions, how do you use them? Because consumers are all different—no matter how they fit into your target market—it is important to reach them through a combined approach, using a variety of the methods in the marketing promotion mix.

The method of using various forms of the promotional mix to send the same message to the target audience is called integrated marketing communications.

Importance of IMC in Marketing

If a group of friends is planning to go out to dinner, as the group organizer, you may find it best to text some friends and call others. The message is the same: "Let's meet for dinner at Chipotle at 6:00 p.m." The methods of communication are different depending on the traits and characteristics of the group. This works similarly in marketing. Marketers have many forms of communicating through the various methods available in the promotional mix. However, it is important to send the same message in different ways to reach different customers within the target market. And consumers need to hear the same message many times and in many different forms.

Benefits of IMC

The benefits of an integrated marketing campaign are many. As a marketer seeks to create awareness, stimulate demand, or even encourage product trial, they are continuously seeking methods of cutting through the clutter and noise and trying to reach their intended audience—the customer. When using one method, they may reach a few customers; when using two or more methods, the odds begin to increase; and when using all of their available promotional mix methods to reach the consumer with a consistent message, marketing becomes more effective. The benefits of the integrated approach are significant.

Better Results

Without an integrated approach, the marketing message and delivery methods will be disjointed. Different marketing team members may be sending very different messages to the consumer. The consumer will then be confused as to what they should do. Think of it as a bike with all the pieces lying on the sidewalk—the bike doesn't work very well. However, when the pieces all come together to form the bike, it glides smoothly along the sidewalk. It is the same when the message comes together.

When Taco Bell (see Figure 12.7) wants to tell the consumer that the Grilled Steak Burrito is only available for a limited time, it can send the message in many different ways. The consumer soon knows the Grilled Steak Burrito is only available for a limited time. They have received the same message through ads on television and radio, an email, a photo and reminder on Instagram, and a billboard on their way to work. After receiving the same message in many different ways, the consumer realizes there is some urgency in getting to Taco Bell to try the new Grilled Steak Burrito. When the customer is physically near their local Taco Bell, apps such as RetailMeNot can send push notifications to customers when they pass the location. The offer can include BOGO or other promotions to convince the customer that the time to purchase a Grilled Steak Burrito meal is now.



Figure 12.7 Taco Bell effectively utilized an IMC strategy to tell customers that its Grilled Steak Burrito was available for a limited time. (credit: "Taco Bell" by JeepersMedia/flickr, CC BY 2.0)

Increased Efficiency

Having streamlined communication channels all working toward a unified goal reduces waste and increases productivity. The marketing effort should not create divergent messaging. Through integrated marketing communications, creating a clear and simple message allows the marketing team to focus on the single message while each team member uses their skills to push the message through their unique specialization, be it public relations or advertising. Everyone comes together through a shared goal.

Improved Brand Awareness

You can tell a small child to brush their teeth multiple times, and chances are good it still won't happen. But when a parent tells the child to brush their teeth, the dentist provides them with a toothbrush and tells them to brush their teeth, and Elmo shows them the importance of brushing their teeth, the child soon understands that it is a good idea to brush their teeth. The same thing happens when Southwest Airlines publishes all of its fares and fees on its website, broadcasts ads on television and radio, sends emails to its Southwest Rapid Rewards customers, and advertises on its mobile app (see Figure 12.8).



Figure 12.8 An IMC strategy in which the consumer hears product or service benefits through multiple channels, as utilized by Southwest Airlines, allows a company to increase brand awareness. (credit: "Waikiki IMG_2379" by John Martinez Pavliga/flickr, CC BY 2.0)

Repeated Success

Through the use of an integrated approach, marketers are finding repeated success. Success is generally based on the metrics chosen for the campaign objectives. Typically, marketers are concerned with objectives such as return on investment, cost per impression, cost per lead, and customer lifetime value. With a truly integrated campaign, the objectives remain the same while the execution strategies change across the various promotional methods.

Customer Satisfaction

When customers know the brand promise and hear it repeated often with increased company connection, customers are more educated and have more realistic expectations. The combination of connection and knowledge leads to increased customer satisfaction.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

British Airways used the James Bond movie *Die Another Day* to show that James Bond flies first class. The airline also ran ads with the slogan "Save your moneypennys, fly like Bond," which referenced one of the main characters in the film. The airline also posted ads where consumers were watching the movie. This an example of _____.

a. the marketing mix
b. distribution
c. integrated marketing communications
d. advertising

2.

The goal of integrated marketing communications is to _____.

a. have all marketing and promotional activities project a consistent, unified image
b. gain control of the distribution process
c. use only paid methods of promotion
d. develop a competitive pricing structure

3.

When Sally is able to quickly recall the Taco Bell ad and think about purchasing a Grilled Steak Burrito from Taco Bell when she is hungry, it indicates which of the following benefits of an integrated marketing communications approach?

a. Increased efficiency
b. Customer satisfaction
c. Improved brand awareness
d. Expense

4.

Tina knows that when she goes to Walgreens, she can use coupons and her reward points. She is thrilled with the way she saves money at Walgreens, and she is happy to be able to use so many of the great promotional opportunities. She tells many of her family and friends about her savings and her experience. Which of the following integrated marketing communications benefits is Tina demonstrating?

a. Better results
b. Increased efficiency
c. Improved brand awareness
d. Customer satisfaction

5.

When a marketer uses multiple promotional methods to send a consistent message to the consumer, they are demonstrating the use of _____.

a. advertising
b. public relations
c. integrated marketing communications
d. personal selling

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12.5: Steps in the IMC Planning Process

Learning Objectives

By the end of this section, you will be able to

- List the steps in the IMC planning process.
- Summarize the details of each step in IMC planning.

Identify the Target Audience

All successful IMC campaigns start with a good foundation and a carefully written and executed plan. Every step in the marketing process should be driven by research; the same is true for the IMC planning process (see Figure 12.9).



Figure 12.9 The IMC Planning Process (CC BY 4.0; Rice University & OpenStax)

Understanding the audience is integral to creating an effective IMC campaign. Using a variety of tools, marketers can identify the target audience. The more that is known about the target audience, the higher the likelihood is of making sure the message is coded correctly and the right medium for effective encoding and reduced noise is chosen.

Marketers employ many tools to understand the target audience. Both primary and secondary marketing research can provide significant insights. A clear understanding of the consumer allows the marketer to create messages that resonate with the needs and wants of the target audience.

Determine the Marketing Communications Objectives

Marketing campaigns must start with clear objectives. Objectives define what needs to be done, and they help to keep the strategy and tactics clearly aligned. Good objectives will help marketers create cohesive messaging across all the promotional mix methods. Objectives need to be simple and should be written in such a way that they provide opportunity for analysis. If done correctly, marketers should be able to analyze if the messaging and the medium are working. When creating objectives, follow the SMART guidelines: simple, measurable, actionable, realistic, and time-bound.

The 5A Framework

The 5A framework is the map of the customer's needs. Through the 5A framework (see Figure 12.10), marketers create messaging that moves the customer through the funnel or customer journey with the brand. The 5As provide the marketer with clear steps on the role of the messaging at each step of the framework.

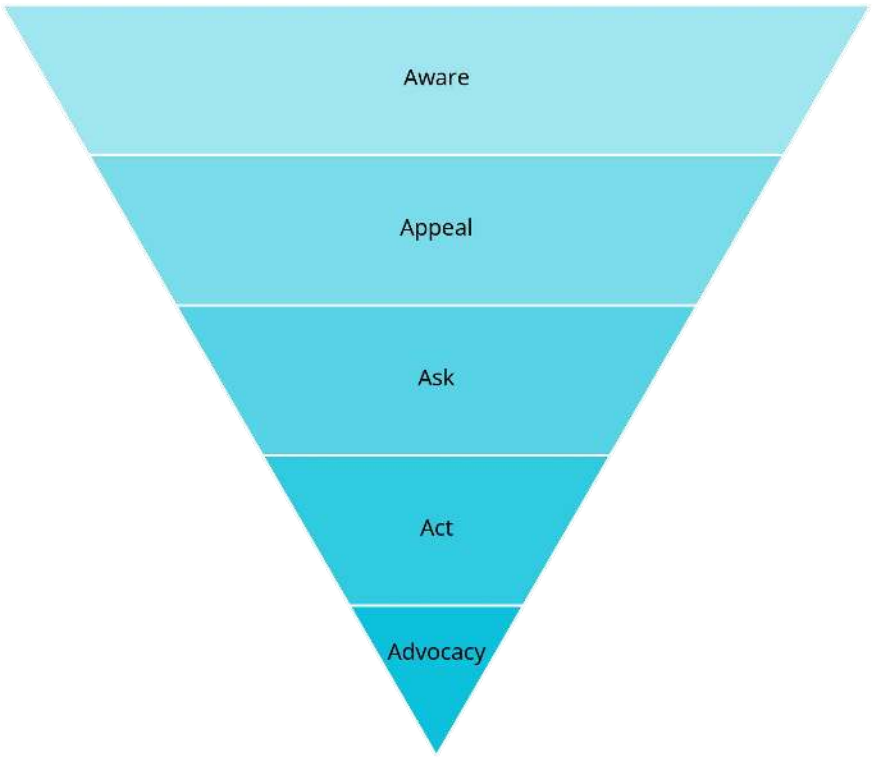


Figure 12.10 The 5A Framework (CC BY 4.0; Rice University & OpenStax)

Let’s look at the five steps of the 5A framework in more detail:

- **Aware**: The first stage in the customer journey with any product is to be aware that the product exists. It is difficult for a product to be desired by the customer if they don’t know about it.

  When Angel Johnson launched her activewear company ICONI, she needed to stand out from more popular and well-funded activewear brands. As a Black woman–owned business, Angel wanted to appeal to other women, many of whom needed different types of activewear. Angel successfully created awareness by running ads on Amazon, where customers could easily find and purchase her products (Miller, 2022).

- **Appeal:** After becoming aware that a product exists, the consumer must understand what it can do for them. If the benefits are favorable for the consumer, they may put it in their consideration set of things that appeal to them.
- **Ask:** After the appeal stage, the consumer may become motivated to actively seek out information about the product. When the consumer asks the company about the product, they have opened the channels of communication. This is part of the feedback loop. Methods of asking include the consumer engaging online through a chatbot or a contact form or by calling a listed phone number.
- **Act:** Further down the customer journey funnel, if the customer has received information and they feel it is favorable, then they will act. The action can be to either purchase the product or not purchase the product. The marketing team must evaluate either form of action. The marketer can determine if the messaging created a favorable or unfavorable reaction and then modify the messaging for the segment that acted not to buy the product.
- **Advocacy:** At the bottom of the funnel is the marketer’s holy grail—the consumer becomes a loyal customer. The marketer can begin to calculate lifetime value, but most importantly, the consumer becomes an advocate for the product. Through their advocacy, the consumer provides positive word of mouth and encourages other consumers' purchases.

Design the Message

A key element of integrated marketing communications is creating the message. Messages are designed to fulfill the established objectives. Depending upon the objective and the desired action of the consumer, the marketer may create the message to meet the various stages in the customer journey and have a call to action.

The biggest part of the message design is the content of the message. To move the consumer to the point where they act, marketers have at their disposal various forms of appeal. The appeal is the approach used to attract the attention of the target audience or persuade them to take action.

Create the Message Content

When creating the message, the marketer has to consider not only the stage of the customer journey, but the product's features and benefits as well. Other factors to consider in the message content include the media and the traits and characteristics of the target market. All of the segmentation bases should be considered when creating the appeal.

Rational Appeals

When Toyota advertises the features of alternative-fuel vehicles and tells the consumer how those features benefit them, it is creating a rational appeal (see Figure 12.11). Rational appeals prompt the consumer to choose the product based on all the ways they will benefit from using it.



Figure 12.11 IMC messages that appeal to a consumer's rational side, like Toyota's alternative fuel vehicle, speak to the benefits the consumer will see from using the product or service. (credit: "Another Breakfast at Buck's" by Jurvetson/flickr, CC BY 2.0)

Emotional Appeals

Consumers have a wide variety of emotions. Advertising messages can play to all those emotions. Some typical emotional appeals include happiness, fear, trust, sadness, anger, and guilt. It can be quite effective to create fear if the customer doesn't purchase the product. Some examples of common fear appeals include skin care products and the fear of the effects of aging on the skin. Vitamins and supplements use the fear of being unhealthy. And automobiles promote the fear of not being safe in a crash unless you drive a certain brand with a good crash-test rating.

Link to Learning: Happiness Campaign

Coca-Cola (see Figure 12.12) wanted to associate drinking a Coke with being happy and created a whole campaign on the emotion of happiness. Everything in the campaign was focused on drinking Coke and choosing to be happy. They created the #choosehappiness hashtag to be used in their social and digital promotions. Consumers would include their pictures drinking a Coke with friends and add #choosehappiness. Check out this commercial from the campaign.

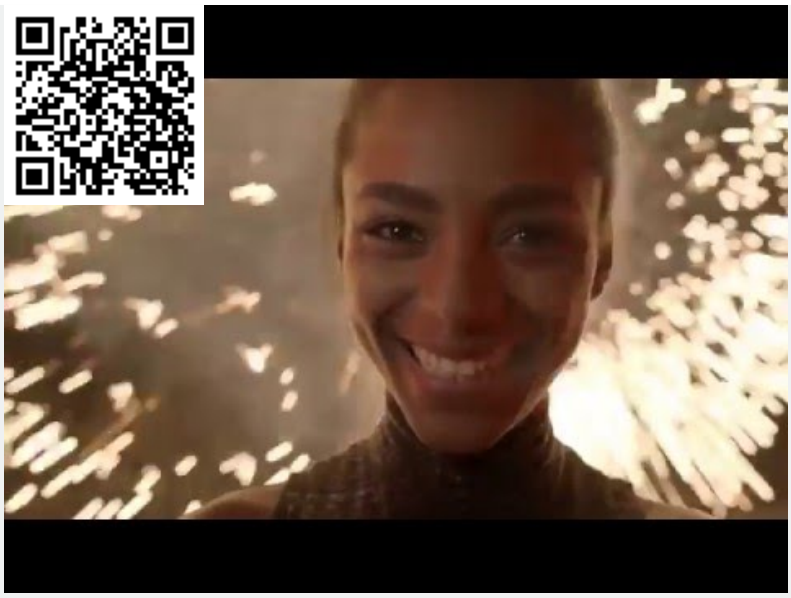




Figure 12.12 IMC messages that speak to a consumer's emotional side, like Coca-Cola's "Happiness" campaign, influence purchasing behavior by playing to consumers' wide variety of emotions. (credit: "Coca Cola" by JeepersMedia/flickr, CC BY 2.0)

Public health campaigns often rely on fear appeals (see Figure 12.13). If you continue a behavior, there may well be negative consequences, which can arouse fear in the consumer. These campaigns seek to change behavior through fear. Fear appeals can be very effective in some circumstances.

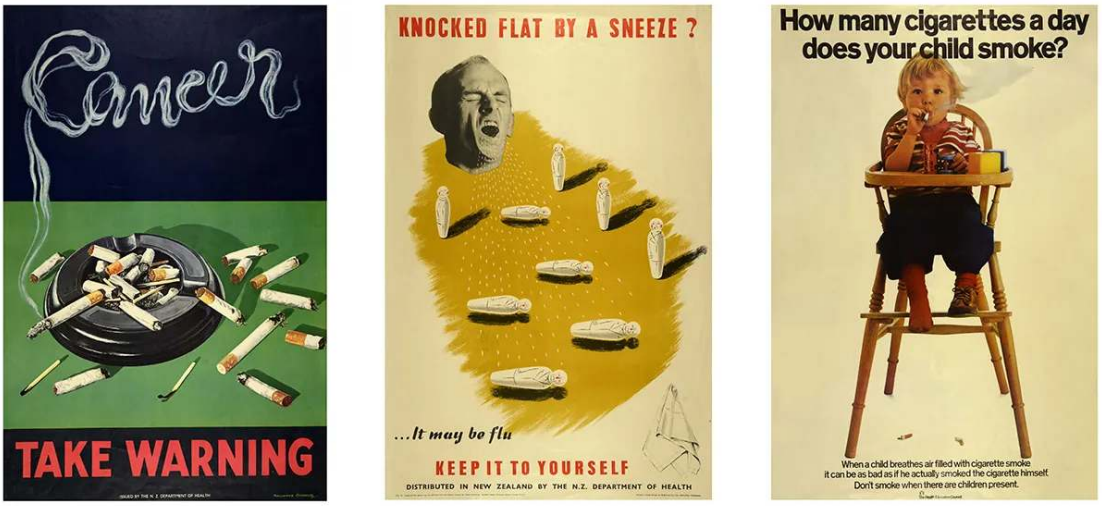


Figure 12.13 IMC messages that speak to consumers' fears create a sense of panic that if the message isn't heeded, something bad may happen. (credit: "Cancer Take Warning" by Archives New Zealand's health poster collection, transferred by the Department of Health/Railways Studios/Archives New Zealand/flickr, CC BY 2.0; "Knocked Flat by a Sneeze" by Archives New Zealand's health poster collection, transferred by the Department of Health/Archives New Zealand/flickr, CC BY 2.0; "How Many Cigarettes a Day Does Your Child Smoke?" by Archives New Zealand's health poster collection, transferred by the Department of Health/Archives New Zealand/flickr, CC BY 2.0)

Moral Appeals

A moral appeal pushes the consumer to want the product because of a sense of morality or social good (see Figure 12.14). The messaging may encourage the consumer to do the "right thing." If they don't do what is being asked of them, the situation will get worse.



Figure 12.14 Messages based on morals encourage consumers to do what is considered right. (credit: "Beer Bottle Chained with Handcuffs and Don't Drink and Drive Text" by Marco Verch/flickr, CC BY 2.0)

Message Structure

Promotional messages generally have common elements, which include a slogan, the text or content, and the graphics. The graphics can include photos and brand identification. Messages can tell stories with words or lead the audience to their own conclusion based on the graphics.

When Apple first promoted its iPod, the company used the imagery of a very colorful background, a completely black silhouette, and the stark contrast of the all-white iPod with white headphones. The graphic alone conveyed the message that the iPod would allow consumers to "jam" to their own tunes through this new device.

Message Format

The format of the message depends largely on the media being used to send the message. For example, a television ad combines sight and sound, while radio relies only on sound. The same is true for print, billboards, and various digital campaigns. Formatting the message needs to take into consideration the target market as well as the medium of the message.

Determine the Budget

Promotional budgets are determined based on many variables. In developing the promotional budget, it is important to consider where the consumer is in their journey. Additional considerations include the current level of brand awareness for the product, accessibility of the target market, creation of the promotion, and specific media under consideration. There are several commonly used methods of creating promotional budgets.

- **Objective and Task:** This is perhaps the best method but is often used the least. With objective and task, the marketer determines the objectives of the IMC campaign and what tasks need to be done to complete the objectives. The tasks are priced, and the level of reach (the number of consumers who will see the message) and the frequency (the number of times the consumer will see the message) are estimated. The budget is established based on the tasks necessary to achieve the campaign objectives.
- **Top Down:** With a top-down budgeting approach, the IMC campaign budget is issued from the operating budget based on input from the executives responsible for setting the budgets. While this method takes into consideration the overall organization, it pays little heed to the needs of the specific campaign.
- **Percent of Sales:** While personal selling is one of the methods included in the promotional mix, it is not the only method. A percent-of-sales approach attributes sales to all the functions of marketing. Generally, an organization may provide an arbitrary percentage of overall sales as the total budget for the marketing promotions. Because many issues affect the sale of a product, it is difficult to make sales the only determinant of the marketing activities and the promotional methods.
- **Affordable:** The affordable method allocates only the amount of money the company can provide to a marketing budget. This method does not create a mindset of growth within the organization. A robust marketing strategy is focused on the growth of the organization. Affordable only provides for what is left over after all the other expenses have been allocated.
- **Competitive Parity:** If you look at the advertising budgets of competitors in the same industry, you might very likely see that they are spending similar amounts on a very similar promotional mix. Companies of every size closely monitor the promotional activities of their competitors. With the competitive parity method of budgeting, the allocations essentially mirror whatever the closest competitor is spending on promotions. This method of budgeting doesn't allow for increased market share.

Develop Strategies and Tactics

The promotional strategies include the promotional methods the marketer choosesto achieve the objectives. Within the promotional methods, the tactics are the specifics the marketer must use to achieve the objectives. For example, if Panera Bread wants a 10% increase in brand awareness for its decorated Christmas sugar cookies from November 26 to December 30, it may choose to use the following strategy and corresponding tactics.

A strategy might be to create an Internet/digital messaging campaign focused on creating awareness with a message to try the Panera Christmas sugar cookies for a limited time. The tactics might then be developed as follows:

- Develop push ads through the Panera Bread mobile app
- Publish pop-up banner ads through Google
- Post campaign messages on Instagram
- Post campaign messages on Facebook

Select the Promotional Tools

The marketer must decide on the mix of promotional tools based on the established marketing objectives. Choosing the mix of promotional methods is also primarily dependent on the consumer and how best to reach them.

When Timmy Global Health, a not-for-profit organization, wanted to do an end-of-year fundraising ask, it chose to reach its donor base through direct mail. The organization chose an email campaign for the segment of its market that is responsive to email and has an email address in the CRM system. For a small segment of its market, those who are older and not responsive to digital marketing, it chose to do a direct mail campaign with a postcard mailed through the US Postal Service (Timmy Global Health, 2024).

Link to Learning: Direct Mail Examples

There are hundreds of examples of companies using direct mail campaigns in their promotional mix. Check out some of the best as referenced in this article.

Designing the Promotion

In considering the target market and the message to send, the marketer must think of the desired response. Three important issues arise in the design of the promotion: what to say (message), how to say it (creative), and who should say it (source). This leads the marketer to the overall message strategy, which will look at the appeal as it relates to the brand positioning. A marketer will consider the following in designing a promotion:

- **Message Strategy:** A good message strategy must tie the brand to the target audience. What will appeal to them? What action do you want them to take? How does the brand positioning need to be portrayed? The marketer may choose to highlight how the product compares to the competition (points of parity), or the marketer may choose to focus on how the product is different (points of difference). In doing so, it is important to showcase the product or service through the value it will bring to the target market. Ultimately, the customer wants to know, “What’s in it for me?”
- **Creative Strategy:** Through a creative strategy, the marketer can translate their message into words, images, and sounds. If the message and the creative do not match up, the communication objectives may miss their mark. The creative strategy helps the marketer cut through the clutter and get the target audience's attention. A properly done creative strategy is the guiding principle for developing good content.
- **Communication Channel:** Think of the communication channel as the delivery mechanism, taking the message from the company to the consumer. Determining which channel is generally guided by the audience, the message, and the creative strategy. Channels can be non-personal or personal. The channel options are as varied as the consumers themselves.

  Personal communication channels can include social networks like friends, family, and neighbors. They can also include paid or unpaid experts and even the company’s sales force. Non-personal communication channels include everything from television and radio to billboards and direct mail.

In designing the promotion, the marketer can mix and match the message, creative, and communication strategies until they have the right combination to execute on their objectives and connect with the target market.

For example, when World Food Championships wanted to reach home cooks, professional chefs, and aspiring chefs to participate in its Food Sport events, it enticed them with the opportunity for a big payout in winnings. And it created a connection with them through smaller local qualifying events. When the winners of smaller events received a Golden Ticket to compete, they were instantly excited. Then, they realized the competition would allow them to meet with even bigger food celebrities and increase their chances of television fame (see Figure 12.15).



Figure 12.15 Designing a promotion involves developing a strategy around message, creativity, and communication—an approach that was effectively implemented by the World Food Championships when it wanted to reach a wider variety of cooks. (credit: "Cookin' with Gas (Oh Wait, That's Induction...)" by Shrie Bradford Spangler/flickr, CC BY 2.0)

Scheduling the Promotion

Knowing when and how often to promote is a critical juncture in the promotional process. For scheduling purposes, it is important to understand the complexity of the message and the medium or channel for delivery. If the average of 5,000 promotional messages a day is correct, the consumer will need to see a message many times to become aware and act. To move them down through the customer journey, the message has to cut through the clutter and stick.

Reach is the number of consumers exposed to the promotional message at any given time. Frequency is the number of times the consumer will be exposed to the message. Using the combination of reach times frequency, the marketer can determine the promotional schedule. Marketers typically work to create promotional schedules that optimize the exposure to the target market. Once again, we see that having extensive knowledge of the target market is critical to creating effective campaigns. There are three promotional schedules a marketer may consider:

- **Continuous:** With a continuous promotional schedule, the marketer will conduct the promotion year-round on a very regular schedule. Consumers will continuously see the ads.
- **Flighting**: Through a flighting promotional schedule, the marketer will run a period of heavy promotions and then go for a time without any promotional messaging. The idea is to give the target market a break and avoid potential wear-out of the message.
- **Pulsing:** If you see promotions regularly and then suddenly you see them a lot during certain seasons, the sender is using a pulsing schedule.

For example, let's consider the television commercial for MyPillow. Throughout a broadcast, the MyPillow commercial plays two or three times. The commercial plays every night on one broadcast station. However, during holiday seasons, the commercial plays more often. The commercial is often accompanied by a special code. With the code, viewers can receive a discount on the pillows. The viewer gets a discount, and MyPillow receives analytics to determine if its budget for this commercial television time is effective. In this example, MyPillow utilizes a pulsing schedule for its promotional efforts.

Evaluate and Measure the Objectives

Before starting a promotional campaign, marketers must establish objectives. Including measurable and time-bound objectives is important. The marketer must continually evaluate the campaign to ensure that every element in the campaign is working to achieve the objective. Continually measuring and evaluating the campaign allows the marketer to evaluate the elements and make

changes. Typically, objectives also have financial accountability. Changing elements of a campaign avoids overspending on components that are not working to meet the objectives.

Some common key performance indicators (KPIs) for evaluating promotional campaigns include the following:

- return on investment
- cost per lead
- cost per sale
- conversion
- engagement

Digital promotional campaigns allow marketers to track many analytics in real time and have the ability to make changes to the campaign in real time. The advantages of digital media include a host of valuable analytics, such as the following:

- website traffic
- page views
- bounce rate
- conversion rate
- impressions
- cost per click

Marketing Dashboard: ROCI

IMC is centered on data-driven decision-making to drive organizational value. So, it's no surprise that the founder of IMC, Don Schultz, determined a way to measure IMC campaigns. Schultz calls this metric return on customer investment (ROCI). ROCI is a marginal analysis that shows the efficiency of marketing communications spending. We often consider effectiveness the key measure of a campaign's success. But equally important is the efficiency of how we spend resources. We should consider how hard our resources work for us.

We should also be concerned about how well our investment does in the short and long term. After all, we are trying to build financial returns for our organizations. ROCI looks at short- and long-term value by considering the change in profitability and value during the period and overall.

IMC considers all aspects of the marketing communications relationship, not just a single campaign. The ROCI metric looks at how revenue grows over time, not just in response to one action.

The formula for ROCI is as follows:

$$\text{ROCI} = \text{Profit from Customer in Current Period} + \text{mfrac}$$

Let's say we own an ice cream shop and are interested in the efficiency of our recent IMC campaign. So, we decide to conduct an ROCI calculation for an average customer using the following data. What is the ROCI?

Table 12.1

Profit from the customer in the current period	$38.00
Change in customer's value in the current period	$10.00
Customer's value at the beginning of the period	$21.00

Table 12.1

Answer

Solution

$38.48

Last period, the ROCI was $37.50. What factors might impact the change from the previous period to this period?

Answer

Solution

ROCI considers all aspects of the IMC relationship, so as the relationship grows, the ROCI does as well.

What is the value of the ROCI calculation?

Answer

Solution

It determines the marketing communication campaigns that yield the most profitable customers.

Link to Learning: Don Schultz

Hear from Dr. Schultz directly about IMC trends in this video.



Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

The first step in the IMC planning process is _____.

a. determine the objectives
b. determine the budget
c. identify the target audience
d. select the promotional tools

2.

According to the 5A framework, when Jennifer uses the Panera Bread coupon sent through a text message to her mobile device, which stage of the customer journey is she in?

a. Advocacy
b. Aware
c. Appeal

d. Act

3.

When advertising is scheduled to run constantly without variation, this is referred to as _____.

a. flighting
b. continuity
c. reach
d. pulsing

4.

When Nestlé shows an advertisement that has children coming down the stairs on Christmas morning to the smell of freshly baked Nestlé Tollhouse chocolate chip cookies, this is an example of which method of message appeal?

a. Rational
b. Emotional
c. Fear
d. Moral

5.

The CFO for Wendy's tells the CMO that after doing the annual budget, there is only $700,000 left for marketing promotions. Which form of budgeting is Wendy's using?

a. Objective and task
b. Competitive parity
c. Affordable
d. Percent of sales

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12.6: Ethical Issues in Marketing Communication

Learning Objectives

By the end of this section, you will be able to

- Identify ethical issues with respect to marketing communications.
- Discuss ways to maintain and foster ethical marketing communications.

Socially Responsible Marketing Communications

While some argue that marketing makes people buy things they don't want, marketing cannot *make* someone buy something. The adage "buyer beware" still holds. And while there are stories of rogue marketers not holding to the American Marketing Association (AMA) code of ethics, ultimately, marketers want lifetime customers. The lifetime customer is easier to educate, more agreeable, and generally a good word-of-mouth testament for the company. It is difficult to get and keep customers without ethical marketing.

Marketers look to self-regulation as the first line of defense. It is in the marketer's best interest to always maintain a code of ethics to serve their customers and grow their organization. Good brands are always built on trust.

After self-regulation, there is regulation by trade associations, followed by federal regulation. The federal agencies with oversight of marketing promotions include the following:

- **Federal Trade Commission (FTC).** The FTC maintains oversight of commercial speech, unfair methods of competition, and deceptive advertising.
- **Federal Communications Commission (FCC).** The FCC regulates broadcast communication and has jurisdiction over the radio, television, and telephone sectors.
- **Food and Drug Administration (FDA).** This organization has authority over labeling, packaging, branding, ingredients lists, and advertising of packaged foods, pharmaceutical products, and cosmetics.
- **CAN-SPAM Act.** This regulation monitors commercial email practices and is one of the prominent regulations that affect many marketers across industries.

Companies have realized that when they are socially responsible, it benefits many of their customers, their communities, the environment, and their shareholders. Customers have come to expect more from the companies they purchase from and want to support companies that "do good." When companies support and sponsor programs and charities that are important to their customers, their customers, in turn, support them.

In 2021, Subaru celebrated 14 years of its Share the Love event (Subaru of America, Inc., 2022). To celebrate this event, it debuted a national ad campaign highlighting the people, places, and pets impacted by its social responsibility. Charities supported by Subaru include the American Society for the Prevention of Cruelty to Animals (ASPCA), Make-A-Wish Foundation, Meals on Wheels America, and the National Park Foundation. In its advertising, Subaru also showcases some of the local charities—selected by Subaru retailers—that benefit from the Subaru Share the Love event, as well as the impact of the automaker's work with Feeding America to help address food insecurity (Subaru of America, Inc., 2021).

Maintaining and Fostering Ethical Marketing Communications

Ethical marketing communications include avoiding activities that could mislead consumers, such as withholding information, making misleading claims, and misstating information. To present products as all that a consumer would want from them, marketers can easily go down the slippery slope that leads to ethical missteps. To make sure marketing communication doesn't follow any of the common unethical practices, it is important to be aware of two of the most used and violated ethical issues:

- Puffery is when marketers exaggerate at extreme levels. For example, a marketer may say a product is "ten times stronger than the competition." Unless the marketer can support this claim through independent research from a third-party firm, this is an unethical statement. Using general terms such as "awesome," "fabulous," and "best" are all acceptable, but making specific statements crosses the ethics threshold.

- Paid sponsorship is when a person promoting a product is paid by the company to make an endorsement. We've all seen the political ads describing who has paid for the ad and endorsed the ad. When we see a television commercial in which a Ford truck is driving over rugged terrain, and we hear "Built Ford Tough," we are certain the ad was paid for and sponsored by the Ford Motor Company. However, if we scroll through Instagram and see one of our favorite Instagram accounts using the new Babyliss Pro Titanium Flat Iron for their styling hair, and they are extolling its many great features, we cannot be sure if this Instagram account simply really likes the flat iron or if they are a paid influencer. Paid influencers must disclose their relationship to the brand so the consumer is notified that the endorsement of the product is a business arrangement. Disclosing paid sponsorship is a big issue, particularly for advertorials, native advertising, paid links, influencer marketing, affiliate marketing, and any "pay for play" content.

Companies with a Conscience: Farmer Direct Organic

This group of farmers in Canada and the United States banded together to provide better food and better prices. The mission of Farmer Direct Organic is not only to grow better food but to change how consumers think about food and how they eat. The farmers who participate in the cooperative are focused on quality and transparency. All of their food is 100 percent organic and 100 percent farmer-owned.

Through its Facebook and Pinterest accounts, Farmer Direct Organic showcases the family farms that grow the food it sells. Consumers can purchase Farmer Direct Organic at Fresh Market and Whole Foods locations throughout North America. In keeping with its mission to help consumers eat better food, the company shares recipes and serving suggestions on social media and the organization's website.

With a vision of a "food future that is good for you, for your family, for farmers, and for the planet," Farmer Direct Organic carefully monitors the food that bears its brand, and it has an unwavering commitment to pesticide monitoring, transparency, and traceability from the store back to the farm that grew the food that is now on your table (Farmer Direct Organic, 2022).

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12.7: Chapter Summary

After the marketer has facilitated all the other marketing mix variables, they are ready to communicate with their intended target audience. Marketers have a set of promotional methods for communicating. This chapter explores the various methods of communication along with modeling the communication process.

Throughout the chapter we explore the various promotional methods: advertising, personal selling, sales promotion, public relations, direct marketing, and internet and digital marketing. The communication process has multiple steps: sender, receivers, message, medium, encoding, decoding, feedback, and noise. To get messages through the process, it is important for the marketer to have an extensive understanding of the intended target audience.

To reach the target audience and build value for an organization, the marketer typically sends a consistent message through multiple promotional methods; this is called integrated marketing communications (IMC).

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12.8: Key Terms

5A framework | map of the consumer's various need states as they find out about a product and finally decide to purchase

advertising | a paid form of nonpersonal communication about a product, service, or idea

buy one get one (BOGO) | promotion strategy in which consumers are offered the opportunity to buy one product at regular price and get a second item free

communication channel | delivery mechanism that takes the message from the company to the consumer

continuous promotional schedule | process of conducting promotions year-round on a regular schedule

coupons | sales promotion strategy that works to induce a consumer to buy a product based on a price reduction

creative strategy | method of translating a message into words, images, and sounds

decoding | method of transforming and interpreting a message

direct marketing | method of promotion that directly connects with the customer and generally requires a response or transaction

emotional appeals | advertising messages that appeal to human emotions

encoding | process of putting ideas and thoughts into a transmittable form

enter to win | promotion strategy where consumers must complete entry requirements for a chance to win something of value from a company

fear appeals | campaigns that seek to change behavior through fear

feedback loop | notification that the message has been received between the sender and the receiver

flighting promotion schedule | process of running a period of heavy promotions and then going for a period of time without any promotional messaging

frequency | number of times the target market is exposed to a promotion

integrated marketing communications | development and execution of multiple promotional methods that include a coordinated message

Internet/digital marketing | promotional method that utilizes the Internet and digital technology such as text messaging, phone applications, and social media to reach consumers

key performance indicators (KPIs) | methods of evaluating promotional campaigns

medium | various methods of communicating with a target audience; may include broadcast, print, outdoor, and other forms

message strategy | method of developing a message based on how the message will best tie the brand to the target market

moral appeal | information communicated to the consumer to appeal to their sense of right and wrong

noise | unplanned distractions that interfere with the communication between a sender and a receiver

paid sponsorship | when a person promoting a product is paid by the company to make the endorsement

personal selling | one-to-one communication between the seller and the buyer; used to inform and persuade the buyer

promotion mix | tactics marketers use to communicate with the customer

promotional mix elements | tactics to communicate with the customer including advertising, sales promotion, personal selling, public relations, and direct marketing

public relations | nonpaid, nonpersonal communication

puffery | providing unrealistic and unsubstantiated claims about a product

pulsing schedule | process of running steady promotions followed by a period of heavy promotions

rational appeals | information communicated to the consumer based on how they will benefit

rebates | sales promotion strategy in which consumers must provide key information to a company in exchange for dollars off the product

receiver | intended message recipient

return on customer investment (ROCI) | a marginal analysis that shows the efficiency of marketing communication spending

sales promotion | promotion that creates an incentive to purchase; provides for a fairly immediate increase in sales in the short term

sender | source of a message; can be an organization or person

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12.9: Applied Marketing Knowledge- Discussion Questions

1. Evaluate the skills that are required to be successful in a personal-selling position. What are they, and why do you believe they would be important?
2. Consider the communication process discussed in this chapter. Explain the process as you understand each step. Where do you believe the biggest challenges are from a marketing perspective?
3. Explain the ethical issues involved in the messaging that marketers create. How can they make sure that they are not crossing the line when it comes to these issues?
4. Identify some of the benefits and pitfalls of paid sponsorships. Occasionally, an issue hits the news about something that had a blowback effect on the company that sponsored a team, event, or product.

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12.10: Critical Thinking Exercises

Compose a 150–200-word paragraph using all the following terms as they relate to integrated marketing communications. The goal is to prove you understand the meaning of each term:

Integrated Marketing Communications Terms

Terms
advertising
digital marketing
frequency
reach
feedback loop
sales promotion

Several companies come to mind when we think about great integrated marketing communications; Target and Gap are two of those. Consider other companies with campaigns you recognize in any form of marketing that truly stand out. What makes them memorable?

Socially responsible marketing campaigns such as the Subaru campaign are becoming increasingly visible. Identify two to three other campaigns that you have seen. What do they use as a motivator? Is it to give to a cause, to buy a product or service that they sell based on the fact that they make a donation in your name, or is it simply an informative campaign?

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12.11: Building Your Personal Brand

One of the key ways that you can build your personal brand is by association. The following is a list of marketing associations. Research each of these to determine which organization(s) are most congruent with your goals. Many of these organizations have local chapters that you can join, where you can attend a function, or that you can simply use to gather additional information. These are great ways to network with other marketing professionals, organizations, and industry leaders. From this association you can continue to develop a network of peers that you can gather information, experiences, and ideas from.

- American Advertising Federation (AAF) is a leading professional organization that includes members across all disciplines and career levels in advertising.
- American Marketing Association (AMA) is the largest marketing association in North America with more than 30,000 members globally.
- Association of National Advertisers (ANA) is a leading marketing and advertising organization.
- Association of International Product Marketing and Management (AIPMM) is a membership-based professional organization for product managers, brand managers, and more.
- Association of Network Marketing Professionals (ANMP) is the premier association uniting network marketing professionals worldwide.
- Legal Marketing Association (LMA) is the universal voice of the legal marketing and business development profession.
- Social Media Association (SMA) informs, inspires, and empowers business through social, digital, and future media.
- Society for Marketing Professional Services (SMPS) is for marketing and business development professionals in the architecture, engineering, and construction industry.

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12.12: What Do Marketers Do?

Using the same list of marketing associations above, contact the one that interests you the most and ask if it is possible to speak with a member. Explain that you are a student and you would like to interview someone in the field. Before the interview, consider what information you would like to leave the interview with. Below is a list to get you started, but be sure to add anything else that the list does not contain and be prepared to ask follow-up questions for clarity.

1. Tell me about yourself. What is your education, how long have you held this position, and how did you get here?
2. Can you outline your current job?
3. What does your typical day look like?
4. What do you like best and least?
5. What is the biggest challenge of this position?
6. What does a career path look like from where you are now?

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12.13: Closing Company Case

Little Debbie

Part of your childhood nostalgia may include the Little Debbie Oatmeal Creme Pie, Nutty Buddy, or Swiss Roll. These much-loved products are from the family bakery known as McKee Foods, founded in 1934 by O. D. and Ruth McKee. The company started out as Jack's Cookie Company, a small bakery in Chattanooga, Tennessee, that the McKees bought to provide convenient snacks for school lunches.

Before McKee Foods, bakery or snack cake items were not individually wrapped and sold in a multipack carton. The snack cake brand was named Little Debbie after the founders' granddaughter. Her image is still the famous logo on all packaging. Back in the 1960s, a carton of 12 cakes and cookies had a suggested retail price of 49 cents.

Among the company's brands are Little Debbie, Sunbelt Bakery, Drake's Cakes, and Fieldstone Bakery. The largest brand is Little Debbie, with a wide range of favorites from Apple Fruit Pies to Zebra Cakes. Little Debbie offers seasonal items in rotation, such as Christmas Tree Cakes. Distribution extends to all 50 states, Mexico, and Canada.

The Little Debbie brand of products is widely available in grocery stores, convenience stores, and vending machines. The company has many best-selling products that are pantry mainstays in households throughout the markets they serve. Because the company is such an American icon, the products evoke a sense of nostalgia in many consumers. One such product is Christmas Tree Cakes. Debuting in 1985, the beloved product can be found on shelves to celebrate Christmas and is widely anticipated by consumers around the start of the Thanksgiving season. It is one of the best-selling holiday treats.

For the 2021 holiday season, Little Debbie launched a new Christmas treat, Christmas Tree Cake Ice Cream. To create this new confection, Little Debbie partnered with Hudsonville Ice Cream, a Michigan-based company that has been in business for over 90 years. The new product launched with a great deal of media attention. Public relations were in full swing with articles in newspapers across the country as well as trial of the product on live news broadcasts. Additional headlines appeared in digital media outlets to amplify the message that this new treat was available in stores for the holidays "while supplies last" (Callahan, 2021)

Little Debbie featured the product in its social media with release information on all its channels starting in October, well ahead of the holiday selling season. The company has a robust social media presence with over two million fans on Facebook, 85,000 followers on Instagram, and 200,000 followers on Twitter. The likes, shares, and positive comments had social media buzzing in anticipation of this new product (McKee Foods, Inc., 2024).

Case Questions

1. When Little Debbie creates its message about the Christmas Tree Cake Ice Cream, what is an example of the encoding?
2. Because this promotion was largely dependent on public relations and publicity, what is the potential noise that may interfere with the media?
3. How did Little Debbie integrate its communication for the introduction of the Christmas Tree Cake Ice Cream?
4. What type of appeal is Little Debbie using for the launch of the Little Debbie Christmas Tree Cake Ice Cream?

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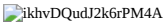
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CHAPTER OVERVIEW

13: Planning for a Digital Marketing Campaign

13.1: Search Engine Optimization
13.2: How to Rank High
13.3: Algorithms
13.4: User Experience
13.5: Backlinks
13.6: Keywords
13.7: Understanding How Consumers Use Keywords
13.8: Using Keywords to Analyze Competitors
13.9: References



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13.1: Search Engine Optimization

Learning Objectives

Understand SEO and keywords and why they matter for your firm, for consumers, and for competitor analysis.

Search Engine Optimization

Search engine optimization, or SEO, is “the process of affecting the online visibility of a website or a web page in a web search engine’s unpaid results” (Wikipedia, 2024a). This differentiates SEO from the use of paid ads to appear at the top of search engine result pages (SERPs). Take the following two screenshots, for example. On the left-hand side, we have results that appear at the top of the SERP because the company has bid on certain keywords used in a search query ("car rental Montreal"). On the right-hand side, organic search results appear because the company has practiced SEO on similar keywords. In other words, they have optimized certain pages of their websites to maximize the chances that these pages would rank high when people search for specific keywords (e.g., "car rental Montreal").

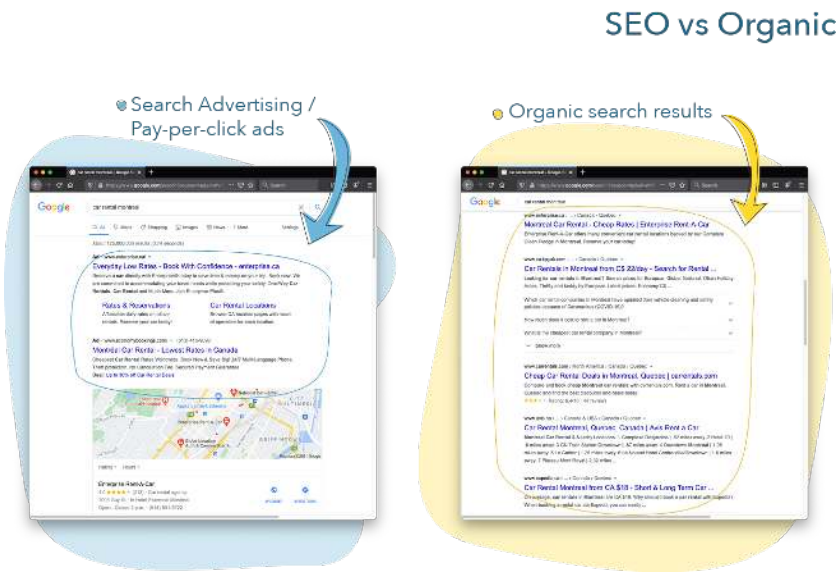


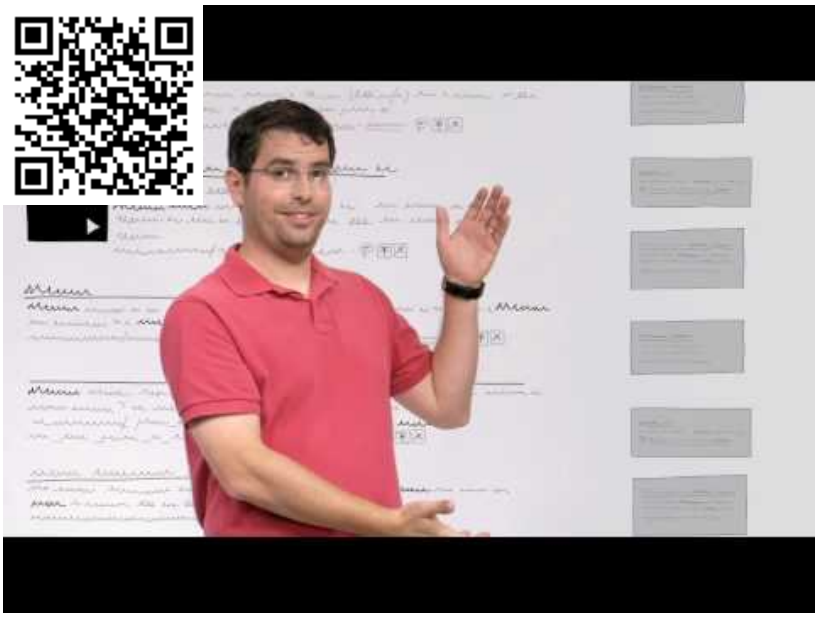
Figure 13.1 SEO vs Organic Search

Why is SEO Important?

People use keywords to interact with content online, and most online experiences start with a search (Agrawal, 2017). As we will soon see, people turn to search engines for a wide variety of reasons, and these give opportunities for your firm to show up when people are searching for something.

Ranking high on search engines also gives a competitive advantage. In 2015, the first spot on Google received 35% of the traffic for a specific search. More than 50% of the traffic went to results located on the first result page (Advanced Web Ranking, 2015). Search matters for physical stores, too, and local searches lead 76% of mobile visitors to visit stores within the day. 28% of these resulted in a purchase (Think with Google, 2016). SEO also matters because most people ignore paid ads (McGee, 2011). Clearly, ranking high can benefit a firm: Being well-ranked provides a clear advantage over competitors.

To understand how to rank high, it is important to understand how Google works. Let’s watch the following video from Google:



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13.2: How to Rank High

So, How Do You Rank High?

The main job of a search engine is to serve results that best address people's search queries. Let's say you want to know how to clean your cat, including what kind of soap to use, how warm the temperature should be, and how to wash their paws. You can turn to a search engine to learn how to do so. People turn to search engines and use **search queries**, the "query based on a specific search term that a user enters into a web search engine to satisfy their information needs" (Wikipedia, 2023). For example, you might turn to Google and type in "How to bathe my cat," or "easiest way to wash my cat," or "wash a cat," or "cat wash soap."

We will use the term **keyword** to talk about the key terms people use in search queries. Keywords are central for digital marketers. They are what we use to both talk to search engine to "tell" them what search query a specific webpage is supposed to respond to (and we are going to see shortly how to do so), but it is also what we use to talk to consumers and make sure our webpage shows up when they search for something. Keywords link consumers' search queries and whether or not our webpages show up when they search for something specific. It is thus important for us to think ahead when creating pages about *what are the keywords and search queries this webpage answers?*

The search queries above are all slightly different in terms of keywords, which might indicate that they are looking for slightly different things: the first user seems to want a tutorial, the second an easy way to wash a cat, the third is rather undefined, and the last one has more specificity on soap. Thus, search engines will deliver slightly different results to best address what they think the person wants in terms of information (i.e., what exactly they are looking for).

The role of search engines is thus to deliver the best result possible for people doing a specific search. Thus, to rank high on search engines, you need to *create pages that best answer specific search queries.*

You do so by creating specific pages for specific search queries. Each page should have content that best matches that query, and it should have keywords that are, ideally, perfectly aligned with the query you believe people will be making. This reflects the importance of representing (and understanding) the customer (i.e., your pages need to address questions, needs, wants, and challenges that people have). In addition, you should, ideally, write about topics you are knowledgeable about (or you are an expert in), in which your site has authority; and your information should be honest, accurate, and trustworthy. This is summarized in the EAT acronym (Expert–Authoritative–Trustworthy) (Handley, 2023).

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13.3: Algorithms

Understanding Search Algorithms to Rank High

As the video explaining how Google works showed, more than 200 variables are taken into account for ranking websites. Namely, we can identify three grand categories of highly important ranking factors:



Figure 13.2 Top Ranking Factors

- User experience
  - Direct visits
  - Time on site
  - Page per session
  - Bounce rate
- Backlinks
  - Total referring domains
  - Total referring IPs
  - Total follow-backlinks
- Keywords
  - Keywords in anchor, body, density, in total, in meta

Note: A ***backlink*** *is a link back to your website from another domain. For example, www.othersite.com has a link somewhere on their website that links to www.yoursite.com.*

Search engines use these three grand types of factors because they are trying to evaluate: For a specific search query, which website should I show first? Which should I show second? Etc. Again, as a reminder, their goal is to show websites in the order they believe will best answer the search query. As presented in the video, the role of search engines is to make users happy: if you can easily and rapidly find an answer to what you are looking for, you will continue to use this search engine. Your job, as a digital marketer, is thus to create pages that best answer people's needs when they do specific search queries. This is the key general idea behind search engine optimization.

But search engines cannot read the whole Web to evaluate how well a web page answers a search query. Rather, they based themselves on a set of variables to rank webpages. Web pages are ranked for each and every independent search query.

Let’s look at these three sets of factors one by one to understand how this affects our work as digital marketers.

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13.4: User Experience

User Experience

The first and most important set of factors related to **user experience**, or “a person’s perceptions and responses that result from the use or anticipated use of a product, system or service” (ISO 9241-210, 2010). Please note this standard is revised: ISO 9241-210:2019. To put it in very simple terms, *Do your visitors like the experience of your page, and does it meet their expectations?* Since we are looking at ranking pages, we can see expectations as answering the need associated with the search people are doing. Hence, the first set of factors on user experience relates to whether or not your page answers the searches that people are doing and does so in a way that is enjoyable for visitors.

This is a crucial element in understanding SEO: We are not optimizing pages for the sake of optimizing pages. We are optimizing pages to answer people's specific search queries. Optimizing a page should thus be about creating the best page possible to answer a specific search query. We should optimize pages with users in mind.

This approach makes sense if we look at the specific factors above. Direct visits mean that people click on your link when they are on the SERP. We can optimize our page to maximize site visits by creating page titles and meta descriptions that incite people to click on our links. Let’s look at the screenshot below, produced by the search "how to bathe my cat: (Conductor, 2024; Moz, 2024a).



Figure 13.3 How Meta Tags are Displayed on Google SERPs

If a user is searching for "how to bathe my cat," the goal is to find information that will help achieve this task. As a website owner (and perhaps a brand that sells bath products for cats), your objective is to provide me with a page to help me achieve my goal. By doing so, you are creating value in my life. We will discuss later on when introducing conversion-based marketing how this type of value creation by offering free content to people brings visitors and offers opportunities to turn these visitors into leads.

When creating webpages and positioning them on specific search queries, we have only a few options for communicating with consumers. Three of these are the page URL, the page title (which shows up on SERPs and is what you read in your tabs next to the website icon), and the page description. These are resources that you create when creating webpages. They are part of what is called the "meta element." Meta elements are tags used in HTML and XHTML documents to provide structured metadata about a Web page (Wikipedia, 2024b).

Ideally, you want to write your page title and page description in a way that will incite people to click on your link rather than the links of your competition. Your title and description so thus directly address a specific search query, show that the page has the information required, and provide a call to action to incite people to click on your link. In this case, the page title repeats the exact same keywords I used in my search. This is great because it makes me feel that this page is exactly what I am looking for! The description could be optimized, but it provides me with first-hand experience and the start of a tutorial on how to bathe my cat. At least I know that if I click this link, I’ll be given instructions on how to bathe my cat. Perhaps a better description could have been (keeping in mind that description should be about 150 to 160 characters so that they fully fit in SERPs) (Moz, 2024b):

Learn how to bath your cat easily! Your cat will love it! No scratches! Easy 5-step tutorial so that you and your feline buddy have a fun time.

Let’s break this down: [Start with a call-to-action] Learn how to bathe your cat easily! [Express some benefits associated with your content] Your cat will love it! No scratches! [Tell people what’s on your page] Easy 5-step tutorial so that you and your feline buddy have a fun time.

In short, optimizing for users means having people in mind when creating your pages: what are they searching for, how can you best answer their needs and goals, and how can you easily tell them that you are doing so?

This will help address the rest of the user experience factors: time on site, page per session, and bounce rate.

Time on site is the time a user spends on your site. If your page is well-designed and readily answers a query, we can assume that users will stay and spend time on your site.

Bounce rate is the “percentage of visitors who enter the site and then leave rather than continuing to view other pages within the same site” (Wikipedia, 2024c). Again, if people have a nice experience, this should lower the bounce rate.

Because bounce rate and **page per session** (the average number of pages a person views in a given session, where session here can be substituted to a website visit (i.e., the average number of pages a person views once they click your link on a SERP) are associated with moving between pages on your website, it helps if you provide incentives for people to do so.

Typically, this is done by practicing **cross-linking** or linking pages of your own website to one another (Kaushal, 2024). We often see two ways through which websites do this.

One way is to insert links within your pages that bring visitors to other pages of your website. Take this example for this page (Horace, 2021). The page is titled "How to do a mask," and it provides a link to a face mask within the text sold by the website. If you click on this link, you will be visiting another page on the same website, increasing the average number of pages visited per session.

> A cleansing mask, for example, absorbs impurities and leaves skin deeply purified, even more so than with just regular cleansing. Our purifying face mask is made with kaolin clay, which deeply purifies the skin to leave it clearer and more radiant.

Another way that websites invite you to go through multiple pages is through recommended articles. Having a lot of content is quite important in maximizing your ranking for many reasons, one of which is to keep people on your site for a longer period and having them visit many pages.

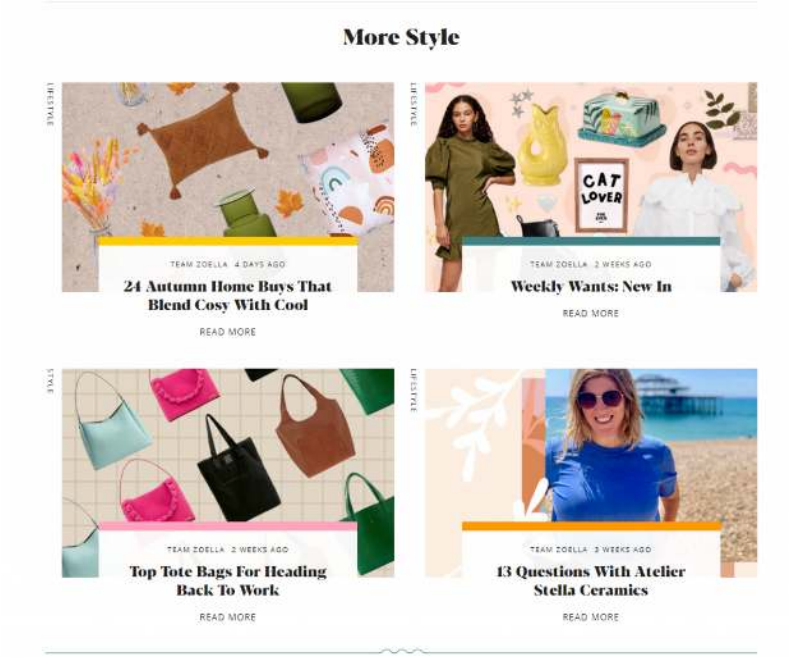


Figure 13.4 Cross-Linking Example

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13.5: Backlinks

Backlinks

The second most important set of factors relates to **backlinks**, or links back to your website from other websites. Backlinks can be thought of as votes of confidence from other websites. It's like a popularity contest: The more people endorse you, the more others think you are relevant in a given domain. Or, applied to the Web, the more backlinks to your website, the more relevant search engines think you are in a given domain.

This is important for search engines because if you provide a good user experience and other sites heavily link back to yours, chances are you are doing something that people like. People liking you/voting for you/linking back to you thus become a good proxy for knowing how high you should be ranking for specific searches.

The list of factors above offers three important backlink-related factors, two of which we will discuss:

- **Total referring domains** represents the total number of domains (e.g., domain1.com, www.domain2.com, etc.) linking back to your domain.
- **Total follow-backlinks** represents the total number of links that are allowed for web referencing that link back to your page. Without getting technical, search engines differentiate between types of links on websites so that they only consider "real" votes of confidence. They thus exclude, for example, links back to your website done as part of promotions. Follow-backlinks represent these "real" votes of confidence, whereas nofollow-backlinks represent links that are not taken into account for referencing.

Importantly, backlinks need to be earned organically, meaning that they cannot be incentivized. Paid promotions with bloggers, where bloggers link back to your website, for example, should be tagged as "**nofollow**" links (Dean, 2024). This means that, to create backlinks, firms need to think of strategies that will create links back to their websites without paying people to do so. Other types of backlinks that should be nofollow include links in blog comments, press releases, most social media and forums, as well as links on all of the following social media platforms: Quora, Reddit, YouTube, Wikipedia, Reddit, Twitch, and Medium. Interestingly, although social media backlinks do not directly contribute to the ranking of a website or webpage, they can indirectly do so by increasing web traffic. Google is notoriously secretive about its algorithm and how it ranks websites. Recently, it indicated that it may follow certain nofollow backlinks, and several examples exist of backlink strategies where webpages shot up in ranking even if the links that contribute to this increase were nofollow links (Dean, 2024).

In addition to these two factors, which generally represent the quantity of backlinks to your sites (i.e., the total number of domains and the total number of links), it is also acknowledged that your website ranking will also depend on the quality of the backlinks.

High-quality backlinks are "natural," meaning that the referring website (the website that links back to you) links back to your website in a way that naturally makes sense in the context. For example, it might use a relevant, natural anchor text. Anchor text is the clickable text that is underlined for a given link (Wikipedia, 2024d). Most of the hyperlinks in this chapter give examples of natural anchor text. The closer the anchor text is to the keywords on which you want to rank your web page, the better. For example, if you want to rank a web page on how to bathe a cat, it will help if websites link back to your web page with the anchor text how to bathe a cat (WebMD Editorial Contributors, 2024). High-quality links come from authoritative pages, i.e., pages that rank high on search engines. They also come from sources that are topically relevant to your web page. For example, if you are creating a web page on fitness routines, backlinks from sites on fitness will have a greater impact on your ranking.

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13.6: Keywords

Keywords

The last set of factors are keywords. **Keywords** are terms you include on your web pages to communicate with search engines and people (Moz, 2024c). They help you clearly identify the ideas and topics that your webpage is on. Keywords are what link your webpage to the search engine result page to the search query of people. Keywords need to represent your content well and naturally but also address what people you want to attract to your website are searching for.

The central implication of this is that *you should be creating webpages to rank on specific search queries that people you want as customers are searching for.* This is why representing the customer and understanding the need, goals, and challenges of personas are so important!

For example, for the search query "how to bathe a cat," the webpages positioned on these keywords are likely to rank first. This is because these webpages are "telling" search engines: “Look at our keywords; we have created a webpage specifically for this search query.” As a result, search engines can assume that these webpages will be better at answering the need of people for a specific search query. People who get good search results that answer their needs are happier about the search engine, which they will continue to use. The goal of search engines is to have people coming back to using them. By helping search engines answer exactly what people are searching for, you are making sure you rank higher.

How do you position webpages on keywords? Basically, by putting keywords in a few key places on your website to "talk with" a search engine and indicate what search query a certain webpage is meant to rank on. To "talk" to a search engine, you want to put the keywords on which you want your webpage to rank on in the following few specific places:

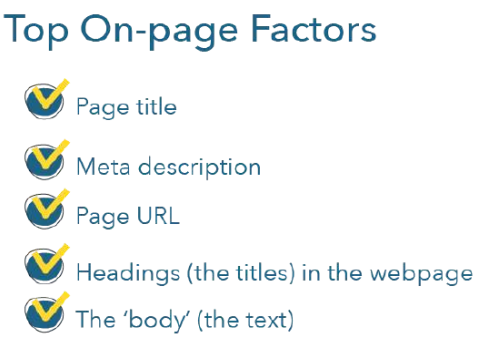


Figure 13.5 Top On-Page Factors

Take the webpage of Moz.com on ‘What are Keywords’ as an example: https://moz.com/learn/seo/what-are-keywords (Moz, 2024c).

This page clearly aims at positioning itself on search queries related to keywords, and more specifically "what are keywords." Why? It has these specific keywords repeated over and over again in the five aforementioned places:

- The page title is “Keywords – SEO Best Practices [2020].” You can easily find any page title by looking at the page source (right click within a web page and click on the option "view page source" in the menu of your web browser).
- The meta description is "In terms of SEO, 'keywords' are the words and phrases that searchers enter into search engines, also called 'search queries' to find what they are looking for. A well-optimized website will have keywords and related topics in their content to make it possible for people to find their website via…" (emphasis added)
- The page URL is ‘https://moz.com/learn/seo/what-are-keywords’ (Moz, 2024c)
- The phrase ‘What are keywords’ is repeated three times in the first four headings:
  - ‘What are Keywords?’
  - ‘Why are keywords important?’
  - What are long-tail keywords?’
- Keywords and related words are repeated over and over again in the body.

The top factors associated with keywords are anchor, body, density, total, and meta.

Keywords in anchor are not controlled by the owner of a website. Rather, as previously explained above, they are controlled by whoever is linking to your site. We thus won't be considering them in this section.

The rest of the keyword factors are controlled by the website owner.

- **Keywords in body** refers to the keywords used throughout your text in a given web page. Ideally, you want to create a tight semantic network of keywords that relate to one another. For example, let's say you are creating a page to rank on the keywords 'best dresses at the 2020 Oscar.' You can put these main keywords to indicate to search engines that this is what you what to rank on in the URL, page title, and one or a few headings. But repeating these keywords over and over again in the body of the text won't feel natural and will hinder user experience. As a result, you can come up with synonyms to use in the body:
  - Best: Top, talked about, fashionable
  - Dresses: attire, robes, outfits
  - Oscar: academy awards, red carpet, statuette

Using this approach will not only help you create a webpage that fares better for user experience, but it will also help you have keywords in the body, in high density (i.e., highly represented in ratio vs. the total number of words), and a lot of them in total.

- **Keywords in meta** refers to having the keywords in the meta elements of your webpage, which, for the sake of this course, will be represented by page title and meta description (Wikipedia, 2024e).

To recap, search engines consider more than 200 factors, but the top factors used to rank websites can be grouped into three categories:

- User experience
- Backlinks
- Keywords

When doing search engine optimization, your role is to create webpages that directly address specific search queries. This will help you craft content that will provide a great user experience and tie your webpage to specific keywords associated with a search query. In the world of search optimization, this is referred to as **on-page optimization**, which is achieved by making changes to the page code, content, or structure of the website to make it more accessible for search engines and improve the user experience.

The other type of optimization discussed is **off-page optimization**, which focuses on building backlinks. Strategies to improve backlinks might involve creating highly shareable content and public relations activities to bring attention to the content you have created. For example, a strategy we used in a firm I worked in was to create benchmark studies (studies that compare competitors based on a set of variables and provide some baseline). These were heavily shared by firms and discussed in the media, which drove traffic to our website. Companies such as McKinsey are continuously producing free content in website sections such as their "Featured Insights" to generate discussions around their firm.

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13.7: Understanding How Consumers Use Keywords

Understanding How Consumers Use Keywords

Since user experience is central to ranking high, it becomes quite important to understand how people search for stuff online. We are going to talk about three ways of thinking about this.

One way to think about how people search is to link it with the objective of their search. Three types of searches are typically referred to by SEO professionals (Gabbert, 2023):

- Consumers perform **informational searches** when looking for information about a specific topic.
- Consumers perform **transactional searches** when looking to perform a transaction. Transactions have been narrowly defined (i.e., buying a product) and more broadly defined (i.e., perform an interaction).
- Consumers perform **navigational searches** when looking to go on a specific website.

The objectives people are trying to achieve when performing search queries are helpful for us as digital marketers because they allow us to create webpages to answer these specific objectives. The kinds of keywords on each page will be vastly different.

These objectives can also be part of the process of moving from needing information about a specific need or challenge to wanting to perform interactions (or a transaction) to address this need to want to go on a specific website. This is exemplified in the figure below, which provides search examples for each objective. The key idea here is that, as digital marketers, knowing why people are searching for something helps you create pages that more directly align with their searches. This helps you improve user experience and choose the right keywords, both of which should allow your webpages to rank higher.

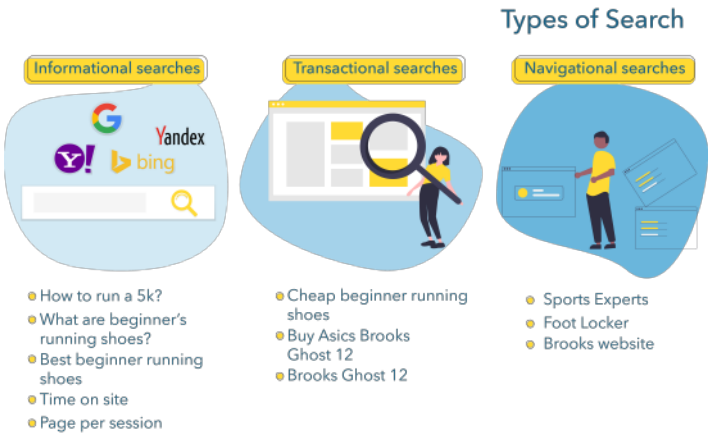


Figure 13.6 Types of Search

A second way to think about why people are searching is to start with their needs, challenges, and goals. This has a few implications: first, as we have seen with RV Betty, different segments/personas have different needs, challenges, and goals. That means that you will need to create different webpages to attract different personas to your website, where each webpage should address a specific need, challenge, or goal (and, perhaps, could do so by targeting different search objectives). Thus, when creating webpages, the first question that should come to your mind is: What are the needs of my persona? What goal are they trying to achieve? What challenges are they facing when addressing their need or achieving their goal? Answering these questions should allow you to generate many different content ideas from which you can think of specific search queries. We will cover this in more detail when we talk about content marketing. To foreshadow what will come up, in this course, we will emphasize how consumers' searches vary depending on where they are in their journey:

- Early on in their journey, consumers are looking to find information about a problem they are facing or a need they are trying to address (e.g., "How to run a 5K," "treating acne fast," "easy ways to gain muscle," "getting a job after college")
- As consumer move to actively evaluate their options to address their need, they will start to weigh different options (e.g., "best training plan for 5k," "retinol vs. benzoyl vs. salicylic," "is creating that good," "should I register on Linkedin")
- Finally, once they are closer to making a purchase, they will look at evaluating or accessing the specific product they choose (e.g., "sales brooks ghost 12," "where to buy benzoyl," "creatine online cheap," "Linkedin promo code")

As with the three objectives of searches, knowing that consumers first concentrate on problems, then on potential solutions, then on the product or service they are interested in is the first step to start creating a marketing campaign. Keeping in mind that our goal is to create value for consumers by representing them (rather than talking about our company), this means that we will need to create ads and content that (1) inform consumers about their problems, (2) help them evaluate their options, (3) position ourselves as the best product / create product or service-specific information. When we introduce the conversion-based framework in the next chapter, we will see how each stage can also be used for different strategic goals (attracting visitors, converting visitors to leads, and converting leads to customers). This is visually represented in Figure 13.7.



Figure 13.7 Journey and Searches

We will cover the last way to think about searches, **Google ZMOTs**, very briefly, given that we discussed it in the last chapter. As we saw, Google proposes four ZMOTs: I want to know, I want to go, I want to do, and I want to buy. Some of these overlap with what we just saw. I want to know are informational searches. I want to buy can be thought of as transactional searches (within a broader definition of transactional searches, I want to do could also be thought of in that sense). These moments again present numerous opportunities to create content. Google presents numerous ways marketers can capitalize on "I want-to-do" moments here (Mogensen, 2015).

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13.8: Using Keywords to Analyze Competitors

Using Keywords to Analyze Competitors

We conclude this chapter by examining how keywords can be used to analyze your competition. To frame what follows, we will assume that competitors know and follow the same rules as you should when creating webpages and choosing keywords:

- Your competitors are creating specific webpages to rank on specific search queries
- They know where to put the keywords to communicate with people and search engines
  - Page title
  - Meta description
  - Page URL
  - Headings (the titles) in the webpage
  - The 'body' (the text)
- They write their page title, URL, and meta descriptions to 'sell' their webpage to people on SERPs

This is useful from a competitive analysis because it means you can easily study your competition based on specific keywords. It is also important to understand here that you should think of ranking on search queries in a way that is similar to selling products: you need to find a positioning that is optimal for your webpage. That means finding a search query that is not overly competitive and on which you believe you will rank high. Hence, the first step is to understand how to analyze the competitiveness of specific keywords and associated search queries

Keyword competitive analysis

We should understand well, at this point, that we are creating webpages with the goal of ranking high on specific search queries. We also understand that not all consumers will use the exact same search query to address a specific need. Let's go back to the search queries we introduce this chapter with and assume we are trying to create a webpage that will address the consumer need of wanting to know how to bathe a cat:

- how to bathe my cat
- easiest way to wash my cat
- wash a cat
- cat wash soap

These are different search queries, and how competitive they are will thus be different. A few easy steps can help you understand how likely it is to rank high on a specific search query. The first step is to understand how old the domains that show up on the first SERP are. This is because the older the domain, the more time they had to build content and backlinks, and the harder they will be to displace from the first SERP. The older domains show up on the first SERP, the more competitive the search query.

To know how old domains are, pick the keywords you want to rank on. Search these keywords on a search engine (e.g., Google). Then, use a whois service (e.g., who.is) and check the "registered on" date. For example, for the search 'how to bathe my cat,' the first websites are:

- .com, registered on 2004
- .com, registered on 1999
- .com, registered on 2000

It seems that most domains for this search query have been registered before 2010, which makes it a likely competitive search query. Additionally, most of these webpages seem to have been created to rank on this exact search query, on something closely related:

- Wikihow page title is: How to bathe a cat
- Bhg page title is: How to bathe a cat
- .com page title is: How to bathe a cat

This combination of webpages clearly positioned on specific keywords that compete against yours and older domains means that trying to rank a webpage on "how to bathe my cat" might thus be a rather hard exercise. It doesn't mean it is impossible to do, but it will require a lot of work to create backlinks and a page that answers consumer needs better than other pages. Trying to position the webpage on other keywords might be an easier path. You can repeat this exercise with new keywords until you find a search that you believe consumers will be using and that is not overly competitive.

Another approach to study keywords is to search for webpages that are exactly positioned on the keywords you are aiming for. A few **Boolean search operators** can help you here:

- **Allintitle** (e.g., allintitle:how to bathe a cat) returns results where the keywords are in the page title
- **Allinurl** (e.g., allinurl:how to bathe a cat) returns results where the keywords are in the page URL
- **Allinanchor** (e.g., allinanchor:how to bathe a cat) returns results where webpages are linked to, with the keywords in the anchor text

These are useful because, as we just covered, search engine optimization should lead webmasters to put the keywords for which they want to rank on in the page title and page URL and because being linked to keywords in anchor text helps our rankings. In short, using these Boolean search operators lets you get a clear list of exactly who your competition is for a specific search query. This becomes useful, for example, if you want to understand what kind of content pages offer, how the pages are structured, whether they have multiple types of media, and so on. Or, put differently, you can analyze the webpages of your competition to create a general benchmark to beat and create a better webpage that will more clearly and fully answer consumers' needs.

? Exercise 13.8.1

Background persona

You are a real estate company in Montreal specializing in first-time buyers.

Let's assume a quick draft of a persona.

Bill and Jane are newlyweds and are looking to start a family. They want to have some space because they plan to have two kids and, ideally, a backyard. They would also like their house to become the family house. In other words, they would like the family to 'grow' in the house. Ideally, that means finding a family-friendly neighborhood where the schools are good and accessible. Their budget is somewhat limited because they are quite young, which can be a problem when wanting to find a home. Finally, they are also first-time house buyers and are quite unaware of the whole home-buying process.

Understanding searches

You are a real estate company in Montreal specializing in first-time buyers.

- Identify an informational search your target market might do.
- Identify a transactional search your target market might do.
- Identify a navigational search your target market might do.

Creating content with SEO in mind

Pick one search out of the three searches you have identified prior. For this search, come up with an idea for a webpage, concentrating on:

- Page title
- Meta description
- Headings
- URL
- Keyword synonyms in body

Backlinks

How can we boost backlinks for our real estate company?

- Identify five concrete ways to do so

Competitive analysis

Reverse engineer the SEO efforts and content marketing strategy of competitors

- Title, page description, URL, headings, keywords in content, alt tags

Go to news.shupilov.com

- Pick three blog articles
- Identify
  - The keywords on which these articles are supposed to rank
  - Who you think they are targeting

Finding novel competitive spaces

- Based on the searches we previously talked about, find five alternative, less competitive searches to rank on.

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CHAPTER OVERVIEW

14: Introduction to Digital Strategy

14.1: Inbound and Outbound Marketing
14.2: Paid, Owned, and Earned Media
14.3: Objectives, Goals, and KPIs
14.4: Strategy and Tactics
14.5: RACE Framework
14.6: From Persona and Journey to Strategy
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14.1: Inbound and Outbound Marketing

Learning Objectives

Understand key terms associated with online strategy, the objectives of the four stages of the RACE framework, how it links to personas and journeys, and how to use it to support competitive analysis.

In this chapter, we discuss some key vocabulary associated with digital marketing, covering concepts such as inbound and outbound marketing, as well as paid, owned, and earned media activities. We then turn our attention to the framework we will cover for the rest of the semester, the RACE framework. We briefly cover the framework's four stages before focusing on how to link persona, journey, and strategy. We conclude the chapter by understanding how the RACE framework can support competitive analysis.

Inbound and Outbound Marketing

Inbound and outbound marketing represent two grand approaches to connecting with consumers. **Inbound marketing** aims at bringing visitors 'in,' drawing them to your company via, typically, content marketing, social media, and well-optimized websites. In this first approach, consumers find you because you represent them.

Outbound marketing is what we typically think about when we think of advertising: the promotion of products or services through advertising and promotions. In this case, a message goes 'out' from your company and stops consumers in whatever they were doing (e.g., a consumer is 'stopped' by an ad when scrolling on Instagram or reading their Facebook feed; they are 'stopped' by an ad at the start of a YouTube video; they are 'stopped' by an ad which cuts a newspaper article or a blog post in two).

Inbound marketing is associated with a few other concepts, such as

- **Permission marketing**, where advertising is welcomed because permission to be advertised to has already been given and advertising is anticipated (e.g., email marketing) (Wikipedia, 2024a)
- **Two-way communication**, meaning that there can be an interaction between consumers and the brand (e.g., consumers can comment on social media posts and blog articles)
- It is sought, meaning that consumers find you
- It has been one of the fastest-growing strategies to do marketing online for the last decade (McCoy, 2021)
- It is seen as cheaper to perform since companies do not need to invest in ads (although there are costs associated with content creation)
- Aimed at customer acquisition

Outbound marketing is associated with concepts such as,

- **Interruption marketing**, where marketing efforts such as ads interrupt what a consumer is doing
- **One-way communication**, because consumers cannot talk to ads
- Imposed, because consumers do not agree to be advertised to
- Decreasing, although this is debated (Leslie, 2015)
- Expensive, because fees are associated with putting ads online
- And aimed at awareness creation, as it has typically been the case with traditional advertising

Examples of inbound marketing include blog posts, infographics, ebooks, white papers, social media posts, tutorials, and the like.

Examples of outbound marketing include advertising of any sort.

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14.2: Paid, Owned, and Earned Media

Paid, Owned, and Earned Media

We differentiate between three types of media online: paid, owned, and earned.

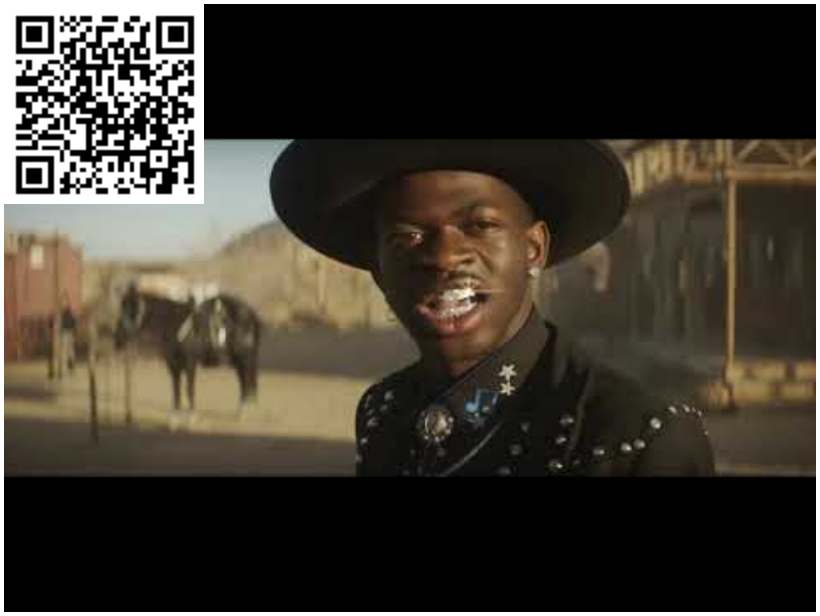
Paid media are media activities you pay for. These media activities are typically performed on a third-party channel (i.e., not your own website) paid by your company to conduct the activity. Your company controls the content, but the third party controls where this content is shown. Examples include search ads, display ads, paid influencers, paid content promotion, social media ads, product placements, and the like.

Owned media activities are media activities that are hosted on channels that you own (i.e., on your own platforms). They include your web properties (e.g., blog posts on your website) and social media channels.

Earned media activities are media impressions that you earn because your content is shared. Here, consumers (and sometimes professionals) become the channel. Shared posts on social media, reviews, and other consumer-generated content, such as content created on wikis, ratings, social recommendations, or forum discussions, are examples of earned media activities. The coverage of your company by journalists is also earned media activities.

Very importantly, albeit these are conceptually distinct types of media activities, ideally, you want to create campaigns that will integrate them. For example, you can create content on your website and social media channels that you will also push by advertising on social media websites and other websites using banner ads. You are making these efforts in the hopes that others will share your content widely. This is the typical strategy underlying viral marketing campaigns.

Consider, for example, the widely successful ad for Doritos during the 2020 Superbowl. Doritos created this ad that the company hosted on its website and social media channels (e.g., YouTube) (Marketing the Rainbow, 2020).



The ad was pushed as a paid media activity during the Superbowl to the tune of several million. It was also associated with a TikTok hashtag campaign, #coolranchdance, fueling earned media impressions (Sway, 2020; Williams, 2020). It is this intersection of paid, owned, and earned media activities that leads to the creation of successful online marketing campaigns!

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14.3: Objectives, Goals, and KPIs

Objectives, Goals, and KPIs

Objectives, goals, and KPIs are the next set of concepts. **Objectives** represent what you want to achieve for your company. Ideally, objectives should be SMART (Wikipedia, 2024b):

- Specific
- Measurable
- Attainable
- Realistic
- Time-bounded

Goals are actions that you want users to take. We use the vocabulary of goal to designate user's actions since this is typically how goals are positioned in web analytics (e.g., Google Analytics) (Google, 2024). Distinguishing between objectives (what you want to achieve) and goals (what you want your users to achieve) just makes things clearer.

KPIs—**key performance indicators**—are metrics used to evaluate your company's performance based on a particular objective or activity. KPIs typically have targets—specific values that your company aims to achieve within a given period.

These concepts work together to help you plan campaigns, as exemplified in the figure below: Objectives can be used to identify goals for users to achieve, which can be measured using KPIs.

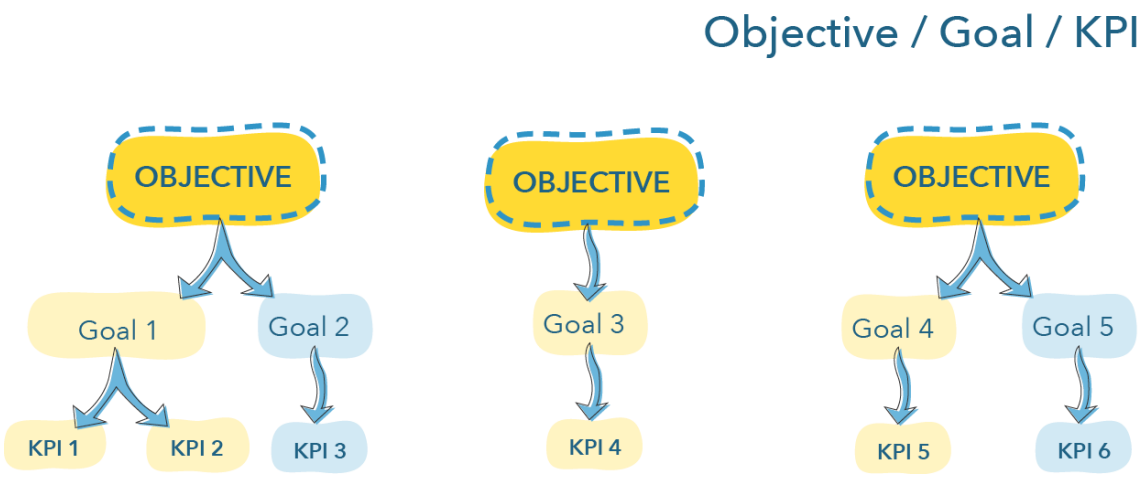


Figure 14.1 Objective / Goal / KPI

For example, an objective for your company might be to increase product awareness. To achieve this objective, you might set up goals for your users, such as subscribing to email updates and engaging in key features you believe will help raise product awareness. It is then possible to identify KPIs to measure your success for these user goals, such as 'number of contact forms submitted' or 'use of the key feature of the virtual mirror.' The figure below exemplifies this.

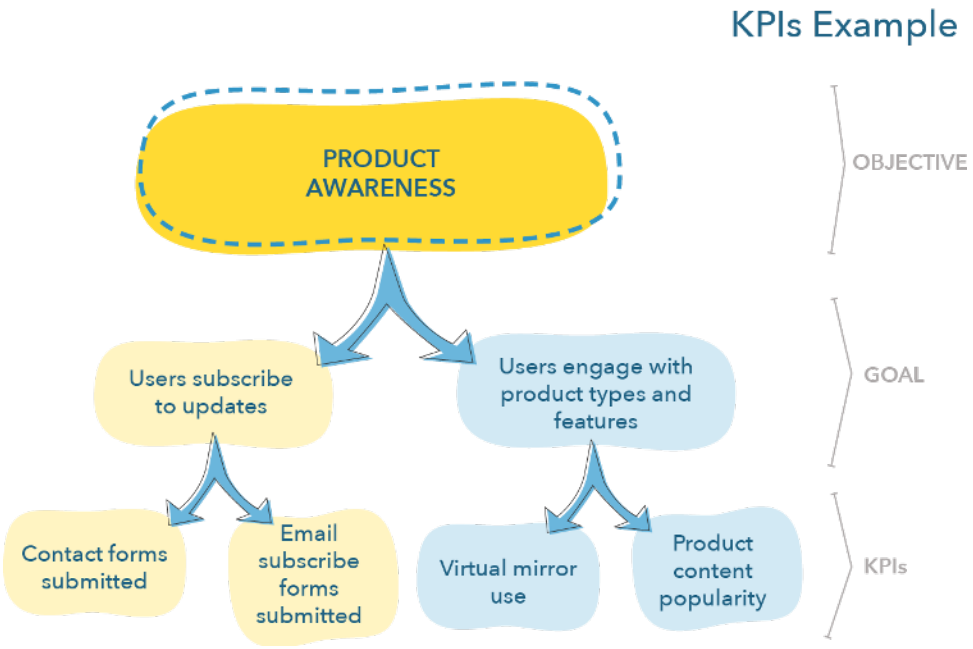


Figure 14.2 KPIs Examples

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14.4: Strategy and Tactics

Strategy and Tactics

Strategic and tactics are the last key terms we need to move to better understand the RACE framework. **Strategy** represents the path you intend to take to achieve a specific objective. This aligns with Jain's (1993) understanding of **strategy** as "the pattern of major objectives, purposes, and goals, and essential policies and plans for achieving those goals, stated in such a way as to define what business the company is in or is to be in."

In this course, we will emphasize how, to implement a strategy and achieve specific objectives, a company deploys **tactics**—tools used to meet objectives. Examples of tools we will discuss include banner advertising campaigns, search ad campaigns, or the use of content marketing on social media.

Let's combine the vocabulary we just introduced in an example:

Objective:

- Increase sales through our eCommerce platform by 10% within the next six months.

Tactics:

- Search advertising/PPC campaign using specific keywords, with a budget, time frame, …
- Social media campaign using the Facebook brand page, with marketing material

KPIs per tactic:

- Search advertising – clickthrough rate, bounce rate
- Social media campaign – clickthrough rate, share ratio/amplification rate

Targets per tactic:

- Search advertising – CTR of XX%, bounce rate of XX%
- Social media campaign – CTR of XX%, share ratio of XX%

We can now turn our attention to the RACE framework.

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14.5: RACE Framework

RACE Framework

Chaffey's **RACE framework** is a *conversion-based* framework (Chaffey, 2023). **Conversion marketing** is a strategic approach that aims explicitly at increasing customers (Wikipedia, 2024c). The framework we study is part of a greater set of strategic approaches, such as Hubspot original "attract-convert-close-delight," which transformed into their "flywheel business model," or the grandfather of conversion marketing approaches, the "pirate metrics" **AARRR model** (acquisition-activation-retention-referral-revenue).



Figure 14.3 AARRR

These different frameworks propose stages with different names, but the central idea of this strategic approach is the same. To convert, you need to move people through four stages:

- Visitors (people who come to your website)
- Lead (visitors are converted into qualified potential customers, i.e., somebody who is interested in your product and is also somebody you are interested in selling to)
- Customer
- Repeat customer

Visitors: Briefly, you create campaigns to attract people to your website.

Leads: Once they are on your website, you want to (1) find ways to see if they are interested in you, (2) find out if you are interested in them, i.e., whether they can be a customer of yours (because not all visitors are people who can buy your product or

service, and, if they fit these two categories, and, if there is a mutual interest, (3) find a way to continue the conversation with them (usually, collecting their email address or making sure they follow you on social media).

Leads: Once you have identified a mutual interest, you move to accompany people in their journey so that you can convert them from a lead to a customer of yours.

Repeat customers: After their purchase, you capitalize on their (hopefully) positive experience with your company so that they can co-create on your behalf (e.g., write reviewers) and continue their journey as a customer of yours.

The RACE framework presents four stages that help us plan for and coordinate different marketing activities to achieve these objectives.

R stands for REACH:

During the Reach stage, your company has two objectives:

- Build awareness about your brand, products, and services through offline and online media activities and
- Drive traffic using inbound and outbound marketing activities and paid earned and owned media touchpoints.

At this stage, you will mostly concentrate on addressing people's problems.

A stands for interACT:

During the Act stage, your company has two objectives:

- Generate positive interactions on your owned media
- Create leads, i.e., identify potential customers and make sure they can be your customers (we will call this "qualifying" leads later on in the semester)

At this stage, we will emphasize how we should focus on addressing consumers' problems as well as helping them evaluate their options.

C stands for CONVERT:

During the Convert stage, your company has one objective:

- Converting leads into sale

At this stage, we will emphasize how we should focus on talking about why your brand, product, or service is the best option for consumers. We will also touch on how to optimize our owned media order to maximize conversions, a process called "conversion rate optimization."

E stands for ENGAGE:

During the Engage stage, your company has two objectives:

- Build customer advocacy
- Foster repeat visits and sales

At this stage, the idea is to build long-term engagement by continuously contributing to consumers' lives by creating value. We also want to identify engaged customers to foster their participation and engage them in co-creation activities to participate in our campaigns and support our marketing efforts.

The figure below presents how these objectives evolve with each of the stages:

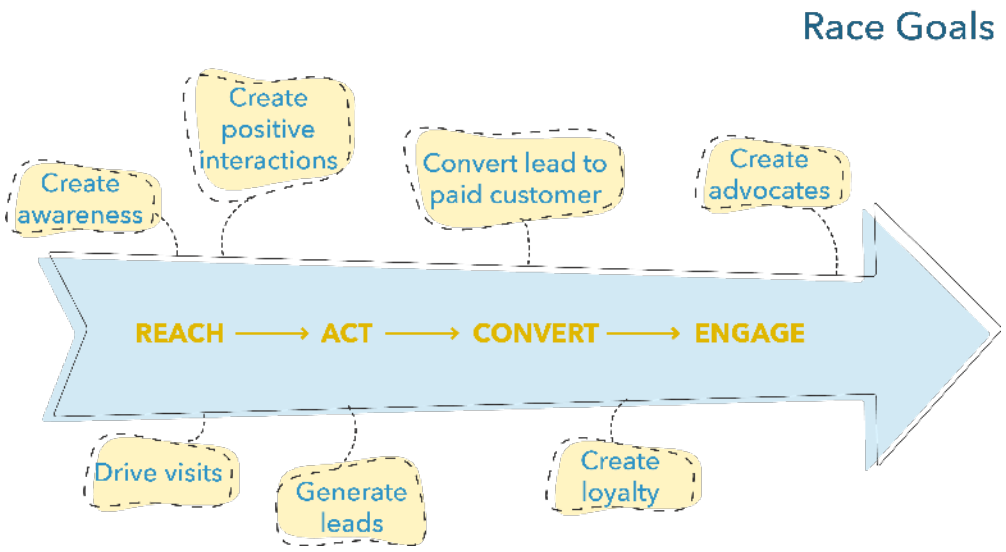


Figure 14.4 Race Goals

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14.6: From Persona and Journey to Strategy

From Persona and Journey to Strategy

As we have discussed in the last two chapters, consumers' goals, needs, motivations, and challenges provide the raw material from which to create content for each persona. **Journeys** tell you what your content should be about (problem, solutions, and your product) and how it addresses different stages of the journey. From week three below:

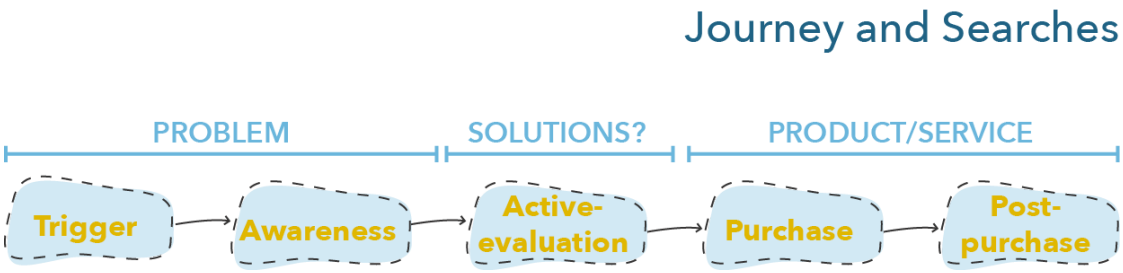


Figure 14.5 Journey and Searches

Let’s take the example of making content and associated search ads, i.e., creating a blog post and then deciding to advertise this blog post on Google SERPs. As we discussed last week, your goal when optimizing your webpages is to identify consumers who will be used to perform searches online. The idea behind making search ads is similar. As we briefly covered, we saw a few ways to help us to do this:

- Who they are/what they need (Persona)
- How they go about solving their needs (Journey)
- What they search to do so (Journey, ZMOT, types)
- Benchmark against competition

Once you’ve identified keywords that your consumers are using throughout their journey, you can start creating content or ads based on these keywords so that you show up on a search engine when a consumer does this search.

Persona helps identify general keywords based on their needs, motivations, and challenges. **Journey** helps identify specific keywords based on how users go about answering needs, motivations, challenges throughout their journey. For example,

- If a consumer has pain in their lower back, they might search Google to find out how to address it. This presents an opportunity to create awareness around a back pain-related product you are selling (e.g., a pair of sneakers).
- If a consumer wants to compare sneakers to understand which one offers the best support to address back pain, this provides you with an opportunity to compare your product with those of your competitors.

Journey - From Awareness to post-purchase

Journey	Awareness	Active-Evaluation	Purchase	Post-purchase
Concrete actions	Goes to google to search for general information about their problem	Action: Goes to google to compare alternatives	Action: Goes to google and types the name of the brand and product he wants to buy	Action: Writes product review on retailer's website
	Search (informational): How to reduce back pain	Search (informational): shoes vs. posture vs. exercise back pain	Search (transactional): Brand XYZ best price sale	
Opportunity	Create content to inform and educate consumers about back pain	Create content to inform and educate consumers about back pain solutions	Position your product as the best option for back pain	Leverage engaged consumers to create reviews
Tactic	Create a blog post with the keywords "how-to; reduce; back pain." Create PPC campaign on associated keywords.	Create several blog posts that compare your product vs. competitors; Include relevant keywords (e.g., best shoes posture back pain). Create PPC campaign on associated keywords.	Search ad campaign on keywords (brand shoes best price) and place an ad to offer a 10% rebate for first-time clients on your website	Give a rebate for a future purchase when writing a review

Table 14.1 Journey – From Awareness to Post-Purchase

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14.7: From a Journey Map to a Conversion Path

From a Journey Map to a Conversion Path

A journey map is a visual representation of the journey of consumers, which brings a rather abstract way of understanding how consumers purchase products (e.g., awareness, consideration, purchase, and loyalty) to something concrete, with specific actions and touchpoints, that a brand can use to create a marketing strategy.

A conversion path is how a brand is thinking of enacting this strategy. It ties together multiple tactical activities (e.g., search ad and content marketing). It can be defined as a description of the steps that a company wants consumers to take to achieve a desired goal. In the digital vocabulary, a *conversion* occurs when a consumer has achieved a goal you wanted them to achieve. Goals are widely varied: it can be visiting a page, clicking on a link, sending you their email address, buying a product, spending more than a specific amount of time on one of your pages, viewing a certain number of pages during a session, using a key feature, and the list goes on. To create a conversion path, companies pre-plan a set of steps they want consumers to take to achieve that goal. The shortest conversion path that is typically presented in digital marketing is ad to content to landing page (see below):



Figure 14.6 Conversion Path

The planning steps consumers take to achieve what you want them to achieve is central to creating digital marketing campaigns. We do not simply create content and ads in the hopes that consumers will visit our website or click on our ads without any idea of what will happen next. Rather, the best-strategize campaigns always answer the question, "What comes next?" For example, if you're creating an ad to appear at the top of a SERP, what comes next? What are you expecting people to do? Where are you leading them? What should they be doing once they get on this page? Why? Answering these questions is how you can create highly-converting campaigns because you have a clear idea of the goal consumers should achieve, and you can, therefore, create pages and ads that will lead them to achieve these goals.

Depending on who you ask, it takes between 5 and 13 touchpoints (or interactions with your brand) to generate a qualified, sales-ready lead (Glynn, 2015; Beasley, 2013). We will come back to the notion of **qualified lead** (i.e., a lead that you believe can be your customer) and **sales-ready** (i.e., a lead that is at the purchase stage) later during the semester. For this chapter, what is important to understand is that, without planning in advance what these 5 to 13 touchpoints will be, it will be quite difficult to create sales. The task of a digital marketer is thus understanding how to bring people through a set of smaller goals, like visiting a

blog post, spending 3 minutes reading the post, giving the company an email address, opening the first email (and so on), that will lead them to achieve certain milestones towards making a purchase. Otherwise, a company will be flying in the dark, with no clear strategy for making sales apart from putting ads online and creating content.

For your term project, your goal is to create a clear conversion path composed of three inbound and three outbound marketing activities. They can be part of the same path (see Figure 14.7) or part of different paths (see Figure 14.8), but you need to think ahead of a set of tactics and associated marketing activities that are clearly linked to make people "walk" through the path you'll have created for them. Ideally, your path should indicate what you are doing (i.e., your tactic) and what you expect consumers to do (i.e., a goal).

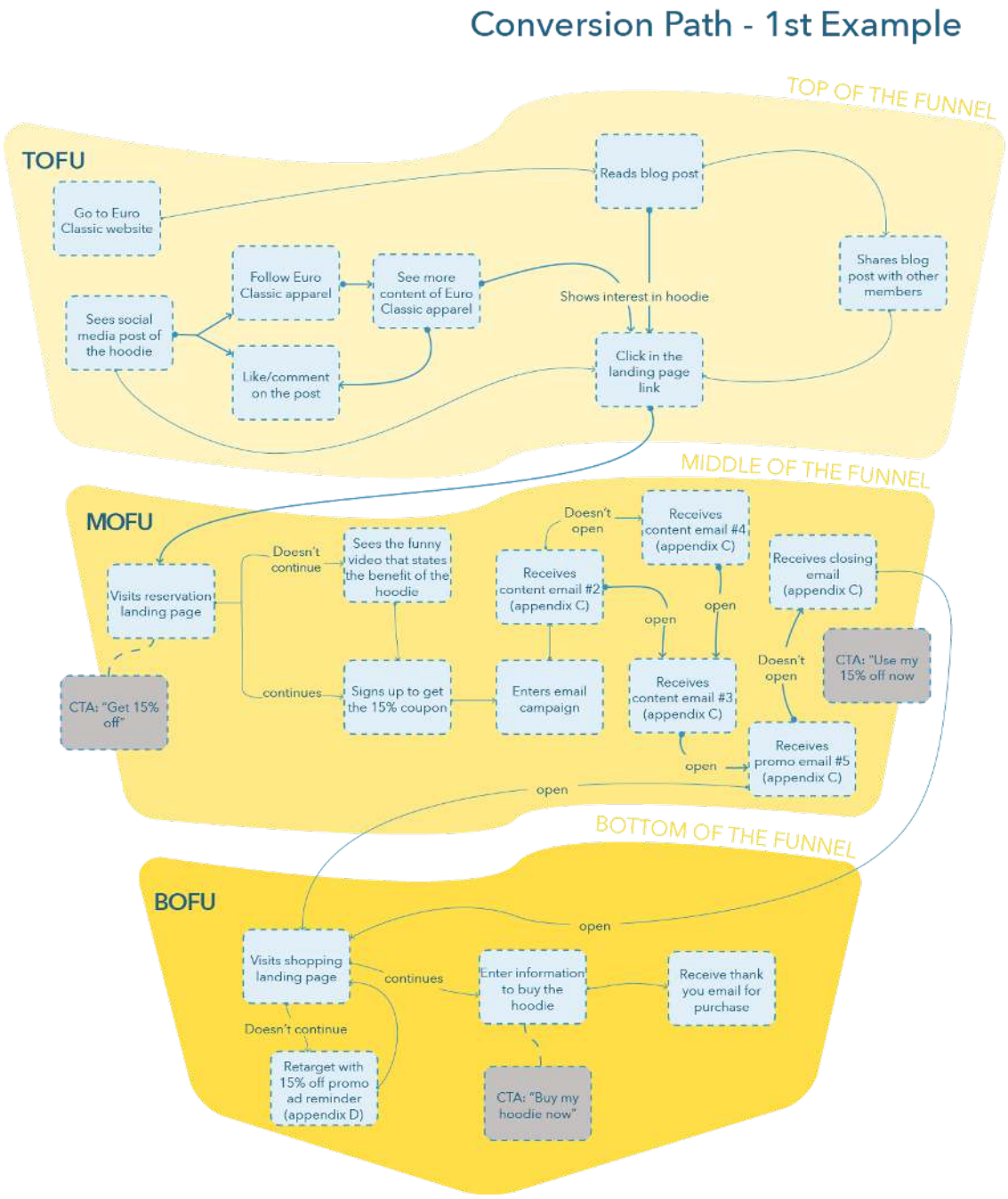


Figure 14.7 Conversion Path – First Example



Figure 14.8 Conversion Path – Second Example

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14.8: RACE for Competitive Analysis

RACE for Competitive Analysis

The RACE framework is highly useful in creating a strategy for digital marketing campaigns. It helps answers questions such as

- **Reach**: How do I bring visitors to my website?
- **Act**: How do I create a positive user experience? How do I transform visitors into leads?
- **Convert**: How do I convert leads into customers?
- **Engage**: Once I have customers, how do I ensure repeat purchases? How can I leverage my customers to participate in my marketing campaigns?

The strategic value of the RACE framework also makes it a great tool to guide competitive analysis. You can turn these questions around to better understand the digital marketing strategy of your competitors:

- **Reach**: How is my competition bringing visitors to their site?
- **Act**: Once on their web properties, how do they create positive interactions? How do they transform visitors into leads?
- **Convert**: How do they convert leads into customers?
- **Engage**: How do they ensure repeat purchases? How do they foster word-of-mouth and other co-creation activities?



Figure 14.9 Race

Reach

Understanding how your competitors bring in visitors can be of great use in crafting your own strategy to attract people to your web properties. Questions to ask include

- How frequently are they running promotions? What benefits do those promotions provide to their customers and potential shoppers, as well as their business?
- Are they running contests online? What kind?
- How are they using their social media channels? How do they drive people from their social media channels to their website?
- What information is included in their marketing banners and callouts?

Act

Similarly, an analysis of your competition should include a better understanding of the user experience on their website. For this stage, you can answer questions such as:

- How are they creating positive interactions on their properties and transforming visitors into leads?
- Where are their calls to action throughout the browsing experience? What are the calls to action about?

- Do they have a blog? How frequently do they post? What type of information do they tackle?
- What is the role of content on their website? How does their content differ?

Convert

Then, the next stage is to better understand how your competition converts their leads into customers. To understand this, it is important to take steps like customers would register for your competitors' newsletters, understand what happens once a cart is abandoned, and analyze persuasion attempts within webpages. To assist you, questions you should be able to answer include:

- How do they display their products and help communicate details?
- How detailed are their product descriptions? What information do they include? What information is missing?
- Where are their calls to action throughout the browsing experience? What are the calls to action about?
- What happens in newsletters? Are there a clear, pre-planned path created to maximize sales? What is that path?
- Do they have an abandoned cart saver feature? If so, at what point do they send the emails, and what are the messages for these emails?
- Is your competition retargeting visitors? Based on what variables?

Engage

To conclude your competitive analysis, become a customer of your competitors! Understand what happens once you buy a product. See whether forums exist on your competitors' brands, services, or products. How are consumers of your competitors interacting online? What are your competitors doing to foster such interactions? You can ask here:

- What happens once you've bought a product?
- Do they have some sort of a club? Membership program? Online forum?
- Do they request reviews? Are there consumer-generated content (CGC) campaigns?
- Do they have consumer appreciation campaigns?
- Does their content always talk to new consumers or to existing ones as well?

Bringing Competitor Analysis Together

A great approach to try to better understand your competitors is to approach them as you would if you were a persona-related consumer going through the motions of their journey. This is a different logic to evaluate your competition compared with other strategic frameworks, such as SWOT (Wikipedia, 2024d).

SWOT, indeed, can be used to understand the strengths and weaknesses of your competition as it relates to their digital marketing resources. But never before were we able to analyze exactly how our competitors are operating. Because everything is archived online and you can readily access marketing efforts such as ads and content, understanding your competitors' strategic efforts has perhaps never been more accessible. To conclude, To gather as much (targeted) information as possible, be sure to:

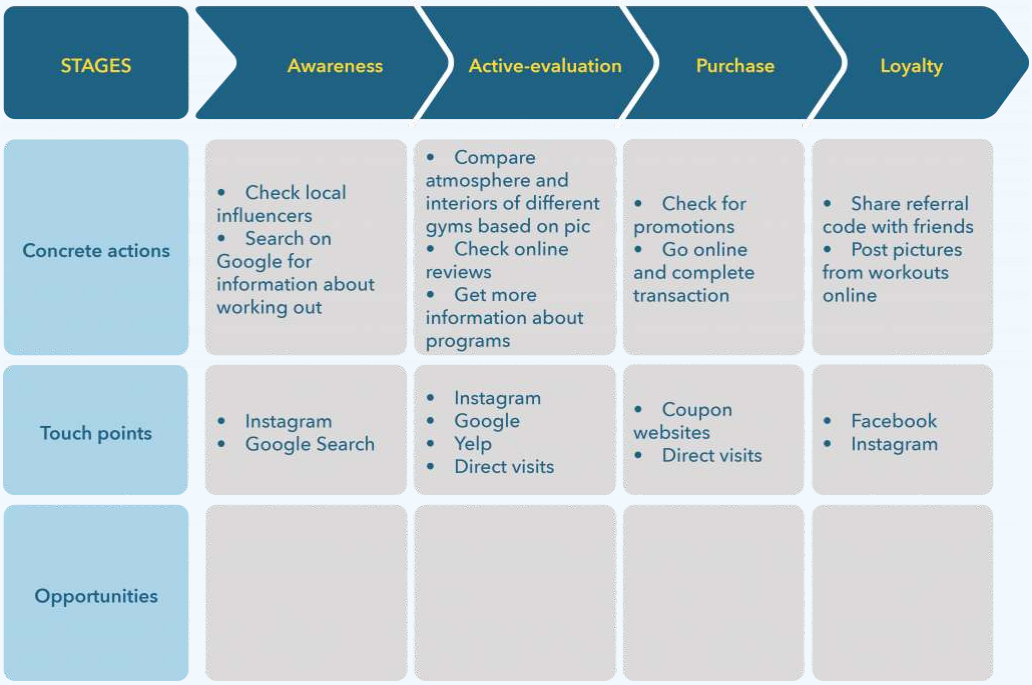
- Subscribe to their newsletter/blog
- Follow them on social media
- Purchase a product: packaging, buying experience, shipping time
- Put an item in your cart and abandon the checkout process
- Check their reviews
- Hunt their ads
- Follow their publicity
- Understand their backlinks

? Exercise 14.8.1

You are a fitness center creating a campaign for people who want to get back into shape.

One of the personas you are targeting is Avery:

- Avery is a person living in a major Canadian city center. They are in their late 20ies-early 30ies and are in the top 20% in revenues in their city. With increased responsibilities at work and a newborn, exercising had been put aside. For a few years. Avery has felt sluggish, lacks energy, and misses having a stronger connection with their body. With age, their body has also started to transform, and they have started to feel conscious about it. To remediate this, they want to get back into exercising weekly. They don't have much time, and they also don't know much about working out or the market—for example, where to work out or how to work out.



Social media analysis using RACE

Using the RACE framework, analyze and compare the following three Instagram fitness center accounts:

- @achievefitnessboston
- @lifetime.life
- @goodlifefitness

Can you group the posts into RACE stages? What are the objectives of these themes? What are the goals for consumers?

Think of the implications to generate awareness, attract visitors, create leads, convert leads into customers, and generate engagement.

Creating a (digital) journey map

Integrating paid, owned, and earned marketing activities for a campaign for your fitness center based on the journey map provided

For one or two stages:

- Start with the concrete actions of consumers
- Identify opportunities
- Translate the opportunities into concrete marketing activities
- Find how to make each activity a paid, owned, and earned media activity

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CHAPTER OVERVIEW

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15.1: In the Spotlight

Leo Burnett was a journalist for the *Peoria Times* in Illinois when he decided to start his own advertising firm with the same name in 1935 (Leo Burnett Inc., 2022). His strategies were fairly simple: to use models who looked like ordinary people instead of Hollywood stars. His motto: "What helps people, helps business." That strategy paid off big for Philip Morris with the introduction of the iconic—albeit now considered unethical—Marlboro Man. In 1952, the ageless Tony the Tiger cartoon icon for Kellogg's Frosted Flakes was also born from the Leo Burnett ad agency. Other notable companies that have utilized the Leo Burnett ad agency include Procter & Gamble, McDonald's, and Fiat, to name just a few.



Figure 15.1 Advertising is a form of promotion and can be presented in many channels; one example is the billboards in Times Square in New York City. (credit: modification of work "Times Square, NYC" by MK Feeney/flickr, CC BY 2.0)

Today, the company has offices around the globe, and it still prides itself on aligning brands with human values. According to the company, "Leo Burnett was built on a simple belief. That the most creative, most effective and most powerful work has people at its core—their needs, wants, dreams and hopes. It's a belief that can be seen in action in everything we make" (Leo Burnett Inc., 2022).

In July of 2021, Leo Burnett London released a new advertisement for McDonald's—"Fancy a McDonald's?"—that showcases one of life's simpler pleasures: laughter. It featured a television advertisement with no dialogue, just friends and family enjoying time together (Long, 2021). The advertisements, a big success, ultimately highlight Leo Burnett's ability to reach myriad audiences across cultures and generations (Leo Burnett Inc., 2022).

Link to Learning: Leo Burnett

There is a lot to learn from the Leo Burnett advertising agency. Check out the agency's website to see the various campaigns the company has worked on. Be sure to check out the News section to read about several campaigns.

Interested in the campaigns mentioned in this section? Check out these websites:

- Fancy a McDonald's laughter commercial



- Kellogg's discussion about the Tony the Tiger campaign
- Food nonfiction's history of Tony the Tiger
- Video on the history of Tony the Tiger



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15.2: Advertising in the Promotion Mix

Learning Objectives

By the end of this section, you will be able to

- Define advertising and provide examples.
- Discuss the importance of advertising in the promotion mix.

Advertising and its Importance in the Promotion Mix

Marketers utilize a variety of ways—or media channels—to promote the organization's offerings. Regardless of the media channel used, marketers must be consistent in the communication they send to customers.

Advertising consists of paid communication messages that identify a brand or organization and are intended to reach a large number of recipients. The most traditional media that are used for advertising include newspapers, magazines, television, radio, Internet, and billboards (see Figure 15.2). The increase in the availability and use of the Internet and other technology has also led organizations to advertise on mobile phones and other digital devices, as well as through email and social media.



Figure 15.2 Billboards are one channel for advertising. (credit: "March04 015" by Lord Jim/flickr, CC BY 2.0)

Like every promotion mix element and media channel, advertising has advantages and disadvantages. Advertising is fairly expensive, so the cost to the organization is high. However, advertising reaches a large audience with one ad, so the cost per exposure is relatively low. For example, just one 30-second commercial during the 2021 Super Bowl cost companies around $6 million (Steinberg, 2021). But with 96.4 million viewers, the cost per exposure (assuming every viewer sees the commercial) is only around 6 cents per viewer. Because advertising is non-personal and reaches a large audience, the message can get distorted from the marketer's intention to that of the audience. For this reason, it is difficult to change the message quickly if it is misunderstood, and it is also difficult to capture how well the message was received.

Link to Learning: Cost of Super Bowl Commercials over Time

Super Bowl ads have a large following, and the expense has increased yearly. Check out this article from *The Sporting News* that compares the cost of commercials from 1967 to 2022.

Product Advertisements

Product advertisements promote a specific product within the organization's product mix. These advertisements focus on a single product and intend to bring brand awareness to a product or to differentiate the brand from competitors. In 2013, PepsiCo created a print ad showing a can of Pepsi wearing a Coca-Cola cape, wishing the audience a Happy Halloween. In 2020, Coca-Cola used the same advertisement to counteract the original ad, stating, "Everyone wants to be a hero!" Both are examples of product advertisements, cheekily comparing two fiercely competing brands (Riddell, 2013).

Link to Learning: Pepsi versus Coke

Brands roasting one another through advertisements is not something that PepsiCo invented. It's been done many times. To see the Pepsi versus Coke campaigns, as well as other big brands roasting their competitors, check out this Bulldog article.

Institutional Advertisements

Unlike product advertisements focusing on one product or brand in an organization's product mix, institutional advertisements focus on the organization. This differs also from public relations—discussed next—in that it is a paid form of communication. Institutional advertising aims to create a positive image or support for the entire organization. Institutional ads also have the advantage of creating a positive impact by attracting potential candidates and increasing employee engagement within the organization. At the start of the COVID-19 pandemic, many companies stepped up to help mitigate the pandemic's effects on the country. Early on, Anheuser-Busch switched some of its operations from distilling beer to making hand sanitizer. In April 2020, just one month after the pandemic hit the United States, the company had already delivered over 500,000 bottles of hand sanitizer (Anheuser-Busch, 2020). The company utilized both print and television advertisements to communicate its philanthropic efforts to consumers. It wasn't trying to sell the public a Budweiser but was using the ads to help bolster its image to consumers.

Importance of Advertising

While there has been a major increase in commercial-free television and the ability to skip ads in multiple media platforms, advertising remains an important part of the promotion mix. Advertising assists in consumer awareness—ensuring the audience knows a product or service and its benefits. Advertising also helps to retain customers through reminders and can show audiences that a business aligns with their values. However, with the increase in society's reluctance to believe what they see in advertisements, it is more important than ever that marketers ensure they send the right message at the right time.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Promoting a product in a television commercial aligns with which promotion mix elements?

a. Advertising
b. Public affairs
c. Social media
d. Institutional advertising

2.

You see a television advertisement from Ford thanking frontline heroes during the pandemic. Which term best describes this advertisement?

a. Product advertising
b. Public relations
c. Institutional advertising
d. Press relations

3.

As a new marketer in a firm, you are asked to provide the advantages of advertising in an upcoming promotion strategy. Which of the following would be included in your list of advantages?

a. Advertising's per-exposure cost is an advantage.
b. Advertising is nonpaid, so it does not cost the company.
c. Advertising's message is easy to change.
d. Advertising's effectiveness is easy to capture early.

4.

Breana sees an advertisement that compares Colgate toothpaste with Crest toothpaste. She decides to change her toothpaste brand based on this new information. Which term best describes what Breana has been exposed to?

a. Institutional advertisement
b. Public relations
c. Social media
d. Product advertisement

5.

Which of the following is a false statement about advertising?

a. It is still as important to the promotion mix as other elements.
b. It is the least costly of all promotion mix elements.
c. It should always be a well-thought-out strategy.
d. It assists in consumer awareness and brand loyalty.

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15.3: Major Decisions in Developing an Advertising Plan

Learning Objectives

By the end of this section, you will be able to

- List the steps involved in developing an advertising plan.
- Describe the details involved in each step of advertising development.
- Discuss methods for assessing and evaluating the advertising program.

Major Advertising Decisions in an Advertising Plan

As with any successful plan, certain decisions must be made while creating an advertising plan. Advertising is expensive and should have specific objectives with clear communication to the audience to ensure the right message is sent at the right time with the biggest impact. These steps include choosing the objective(s), choosing a push or pull strategy, establishing a budget, developing the strategy, executing the program, and assessing the impact (see Figure 15.3).



Figure 15.3 Decisions in an Advertising Plan (CC BY 4.0; Rice University & OpenStax)

Establishing Advertising Objectives

The aim of advertising is to communicate something to an audience. The objectives of such communication can vary depending on the goals of the advertisement. Some common advertising objectives include information, persuasion, comparisons, and reminders. Let's explore each of these objectives in more detail.

Informative Advertising

Informative advertising is most often used when a new product is introduced to the market. The goal of informative advertising is to bring awareness to a product through educational communication to increase demand for the product. A new product can only be successful if people know it exists and why.

Specific messages of informative advertising will vary depending on the product or service. A simple teaser of a new product is effective for some products, while for others, more detailed information may be necessary so the audience understands the product. For example, when the newest iPhone is about to be launched, Apple often uses a short and simple advertisement with only a photo of the phone and its available date. This works well for an existing brand such as Apple because consumers are already familiar with the product's brand. Conversely, when a brand-new product is brought to market that consumers may not be aware of, more information may be necessary in the message.

Persuasive Advertising

The goal of persuasive advertising is to convince consumers to purchase by highlighting the benefits of a product or service being advertised. Whereas informative advertising often uses facts and figures to introduce a product, persuasive advertising often focuses more on the audience's emotions. For example, when an automobile company advertises a brand of its SUV, it might include a scene with a family and focus on the vehicle's safety (see Figure 15.4). This is an attempt to showcase the benefits of the automobile to the consumer on an emotional level.



Figure 15.4 Car advertisements are a form of persuasion intended to appeal to consumers' emotions by highlighting the product or service benefits to the consumer. (credit: "Audi Q5 Vs BMW X3 Vs Land Rover Freelander 2 - Comparison - NRMA New Cars" by The NRMA/flickr, CC BY 2.0)

Comparative Advertising

Comparative advertising aims to showcase the benefits and values of one product over its competitors. Wendy's, a fast-food burger establishment known for its "fresh never frozen" beef, has long used comparative advertising to showcase its freshness over competitors, particularly McDonald's—its biggest competitor. The marketing team at Wendy's often uses humorous advertisements to compare its food with competitors, and in recent years, the company has become known for its humorous social media posts.

Reminder Advertising

Reminder advertising aims to bring a product back into the forefront of the consumer's mind. Typically, reminder advertising is used during the maturation stage of the product life cycle. For any well-established brand, most advertisements are considered reminder advertisements—unless the brand introduces a new product or changes to an existing product. McDonald's 2021 advertisements that remind consumers to get their friends fries if they say they don't want them is an example of reminder advertising, as the company is not introducing a new product but rather reminding audiences that McDonald's is there as a choice in fast food (Riserbato, 2021).

Push Strategy versus Pull Strategy

After choosing an objective for the advertising plan, marketers must determine whether a push or pull strategy will be most effective. A push strategy is aimed at pushing the brand in front of an audience. Often, a push strategy will utilize multiple forms of advertising media so that the product or service is in front of the consumer at multiple times. Common push strategies involve sending postcards or emails and placing ads in print and television media.

Conversely, a pull strategy is intended to bring audiences to the product. For example, if a company is launching a new game app, the company may choose to advertise in another game app. The interested consumer would then click on the advertisement and be pulled into the new product (app).

Link to Learning: GameStop

GameStop is a great example of a company with push and pull strategies. Check out its website for examples.

Establishing the Advertising Budget

The next step in the advertising decision process is establishing an advertising budget. There are several approaches to this decision, but it is important to keep in mind that the advertising budget is just one component of the overall promotion budget. Table 15.1 outlines the most common approaches to budgeting.

Advertising Plan Budget

Budget Approach	Definition
Percent of sales	Budgets are set as a percentage of prior years' sales or predicted future sales.
All you can afford	Budgets are set after all other necessary expenditures have been covered in the organizational budget.
Return on investment (ROI)	Budgets are set based on the expected return, in dollars, that an advertising campaign will produce.
Competitive parity	Budgets are set based on predictions of what competitors will spend.
Objective and task	Budgets are set based on the objectives set for activities planned.

Table 15.1 Advertising Plan Budget

Companies often use previous year (or period) data to set objectives for the current or future years. Marketing budgets can use the same approach. The percentage-of-sales approach utilizes prior or predicted year sales and sets a percentage of those sales aside for advertising. This is a simple way to budget, particularly in stable markets. However, it is somewhat backward of what you have learned thus far in marketing: instead of advertising creating sales, it assumes sales creates advertisements.

Some companies budget their advertising dollars after all other organizational budgeting is complete. The all-you-can-afford approach to budgeting ensures everything else in the organization is budgeted for and then sets aside the remaining funds for advertising. This is a practical and simple approach, but it can often lead to budgets with less money than desired for much-needed advertising.

Unlike other approaches to budgeting, the return-on-investment (ROI) approach views advertising as an investment rather than a cost. The idea behind the return-on-investment (ROI) approach is that for every dollar spent on advertising, a return of that dollar—plus some—is expected. The disadvantage to this approach is the difficulty in determining exactly which ad, media, or campaign is specifically contributing to the return.

The competitive-parity approach relies on setting budgets based on the expected budgets of competitors. This approach works well in stable markets where competition is well established. However, with this approach, marketers are setting rather important budgetary decisions based on competition and can lose sight of internal objectives.

The final common approach to budgeting for advertising is the objective and task approach. The objective-and-task approach is budgeting based on the objectives set previously for the advertising plan. This approach does not consider previous sales or expected competitor budgets. However, marketers must be aware that this approach can lead to overspending when other factors are not considered.

Developing the Advertising Strategy

After marketers and other company executives set a budget for the advertising plan, it is time to work toward the advertising strategy. In this planning stage, marketers create the message and choose the appropriate media.

Creating the Advertising Message

Creating an advertising message can be difficult for marketers, particularly in the current media climate. The advertising message is the visual or auditory information that is used in an advertisement to inform or persuade the audience regarding the product, service, or organization. Messages are usually broken down into five areas: the headline, subheading, copy, images, and call to action (SendPulse, 2022). See Table 15.2. Each area must be consistent with the others, the overall strategy of the advertising plan, and the company's values and mission.

Advertising Message Components

Message Component	Purpose	Example
Headline	Grabs the attention of the target audience	Buy One Get One Free! (BOGO)
Subheading	Clarifies the headline or provides attention details	Buy a couch, get a matching recliner free
Copy	Answers any immediate questions of the audience	Add a stylish yet comfortable look to your living room with our new rich brown couch and recliner in soft chenille fabric, built to last for generations
Image(s)	Visuals to enhance the message	An image of a family sitting on a new couch and recliner watching television
Call to action	Tells the audience what they need to do now that they have seen the advertisement	Come to our showroom today to select your couch!

Table 15.2 Advertising Message Components

Link to Learning: Advertising Messages

There are numerous examples of the message components listed in Table 15.2. Check out these articles discussing ways each of these can be successful:

- Live About article: "Buy One Get One Free (BOGO) Sales Events"
- Ecwid article: "5 Effective "Buy One, Get One Free" Promotions for an Online Store"
- Drip article: "Limited-Time Offers: 10 Creative Ways to Drive More Online Sales"
- HubSpot article: "50 Call-to-Action Examples You Can't Help But Click"

Selecting Advertising Media

Once the message is determined, the marketer will select which advertising media is appropriate for the message. The selection of advertising media will often be determined based on reach, frequency, impact, and engagement that the marketer is hoping for.

Reach refers to the estimated number of potential customers that can be reached with an advertising campaign. Frequency refers to how many times someone is exposed to an advertisement in a given period or how many times an advertisement is shown in a specific period.

Impact refers to how quickly members of the audience receive an advertising message. The form of media that is used will help to determine the impact of the message. For example, a direct mailing may take longer to be received by the audience than a Facebook advertisement. Finally, engagement refers to any interaction with advertising content. This becomes particularly important in digital marketing. The number of times members of an audience click on an Internet ad would measure the engagement of that particular advertisement. Clearly, the more engagement, the more likely a consumer is to make a purchase. Keep in mind that engagement can also be negative—such as a "dislike" or negative comment on a social media advertisement.

There are trade-offs between reach and frequency. It seems obvious that marketers would want an advertising campaign to reach the greatest number of people possible with one advertisement. But is one exposure enough to call a person to purchase the product? Potential consumers often must be exposed to a message more than once before they purchase. Therefore, the marketer must decide whether reaching the most people or reaching the same people the most is more beneficial to the advertising strategy.



Figure 15.5 Newspapers are a form of print media advertisement. (credit: "Business Newspaper" by bestpicko.com/flickr, CC BY 2.0)

Different Media Alternatives

As you learned earlier in this chapter, marketers choose from different forms of advertising media. Most marketing strategies do not focus on only one media but rather on a mix of media most likely to reach the target audience. Print media includes magazines, newspapers, brochures, and fliers (see Figure 15.5). Broadcast media includes radio and television.

Outdoor advertising is a very economical option because it has such a large reach. Banners, flags, wraps, events, billboards, and even automobiles are types of outdoor advertising. Most companies have shifted their budgets away from some of these more traditional media and moved to digital media. Digital media is any advertising done via the Internet, mobile phones, and other devices other than television and radio (Kindles, iPads, etc.).

Link to Learning: Car and Social Media Advertising

Have you ever seen a car drive by advertising a company or service? Some companies will pay you to advertise on your car. Read more about three companies that will pay you to put their advertisement on your car.

Check out these thought leader articles on social media marketing trends in 2022 from Digital Agency Network. Also, learn about the value and impact of social listening here.

Each media has advantages and disadvantages and best uses. When marketers decide on media to be used, they must consider the product or service, the target market, and any budgetary constraints. For example, a product primarily targeted toward senior citizens would be best advertised through traditional media, while millennials are more likely to see advertisements in digital form.

Executing the Advertising Program

At this stage in the advertising plan, marketers are almost ready to release their advertisements to the chosen media. However, before doing so, most marketers will choose to test their advertising to a small group of the target audience to ensure all the messaging is clear and concise.

Pretesting the Advertising

Pretesting advertising involves research that predicts the performance of an advertisement before it airs. The three most common types of pretesting are portfolio tests, jury tests, and theater tests.

Portfolio tests consist of respondents browsing various versions of an advertisement and then being asked to recall certain details from each. Respondents are chosen from the target audience, and those advertisements most recalled by participants are chosen to air for the entire target audience.

Similarly, jury tests are a form of pretesting in which the respondents discuss the advertisements most likely to induce a purchase.

Theater tests utilize a sample of the target audience as well. In this form of pretesting, the audience is shown advertisements—usually television ads—in the context that they would be shown to the entire target market.

Assessing and Evaluating the Advertising Program

After pretests are completed, it is time for the marketers to make any necessary changes and disseminate the ads to the target audiences through the chosen media. But the advertising planning does not end there. Once advertisement messages have been out, marketers must assess and evaluate the programs. Even the best-planned and best-tested programs can still be failures.

Post-testing the Advertising

Post-testing simply refers to testing the effectiveness of a campaign after it has launched. Marketers have several ways in which they can posttest the advertising campaign.

Aided recall is a type of advertising posttest that uses cues to assist a sample audience in recalling brands and products in an advertisement.

The opposite of aided recall, unaided recall uses no cues or prompts to test the recollection of the advertisement message. The respondent is typically asked open-ended questions to gauge information retained from the advertising message.

Attitude tests investigate the attitudes of a sample target audience toward a product or service. Often, the attitude test asks the respondent to compare the advertised product with a competing product.

An inquiry test is a type of advertising posttest that runs two or more similar ads on a limited scale and determines which ads are most recalled by and effective for respondents.

Another form of advertising posttest is the sales test. The sales test determines how many sales will be made based on a test market. This test can be done as either a pretest or a posttest. As a pretest, it is used to estimate or predict future sales that the advertisement will attract. As a posttest, it measures the actual sales that can be linked to the advertisement.

Knowledge Check

It’s time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

David is a marketer looking to measure the success of his new marketing campaign. Which of the following would you suggest to David?

a. Posttest
b. Pretest
c. Jury test
d. Portfolio test

2.

As a marketer in charge of a new advertising campaign, what is the first step you will utilize in planning?

a. Determine a budget
b. Decide on a push or pull strategy
c. State the objectives
d. Execute the plan

3.

If the target market for a product or service is millennials, which advertising media would you most likely choose?

a. Digital media
b. Outdoor advertising
c. Newspapers

d. Billboards

4.

Jamal is trying to explain the difference between reach and frequency to his classmates. Which of the following best describes *reach*?

a. Interactions with an advertisement
b. Estimated number of times a potential customer will see an advertisement
c. How quickly the audience will be reached with an advertisement
d. Estimated number of potential customers to see an advertisement

5.

Which of the following is the final step in the advertising plan?

a. Assessment
b. Strategy
c. Budgeting
d. Execution

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15.4: The Use of Metrics to Measure Advertising Campaign Effectiveness

Learning Objectives

By the end of this section, you will be able to:

- List the key performance indicators (KPIs) for measuring the effectiveness of an advertising campaign.
- Describe how each KPI is measured.

Key Metrics in Measuring Success

The most well-planned advertising campaigns are only effective if they bring about some result. Marketers use performance metrics to determine the effectiveness of a campaign.

Key performance indicators (KPIs) measure how an advertising campaign is achieving certain goals or objectives. Marketers choose to measure several KPIs to determine the impact of an advertising campaign. These metrics help marketers modify campaigns to meet the goals and objectives set forth.

Brand Recognition

Brand recognition refers to the ability of a campaign audience to recognize and identify a specific brand. It measures the extent to which an audience can identify a brand with only a logo or photo. Depending on the advertising media used, marketers will choose the most appropriate metric to measure brand recognition. There are also numerous brand-tracking software programs that will gather this data for marketers.

Brand Awareness

While brand recognition and brand awareness sound very similar, there is a distinct difference. Brand awareness takes recognition a step further to determine if audiences can recall information about the brand. Awareness often seeks to determine the emotions and impressions that a campaign has raised with specific advertisements.

Impressions (Ad Views)

During an advertising campaign, marketers are also interested in quantifying how often an advertisement appears in a chosen medium, known as impressions. To calculate impressions, you need to first determine the rating of the advertisement. The rating is simply a percentage of the target audience that is reached with an advertisement. This data is often gathered by outside firms, such as Nielsen, a long-time marketing research firm.

The following is the accepted impressions formula:

$$\text{Impressions} = \text{Rating} \times \text{Target Population} \times \text{Number of Ads Run}$$

Let's assume that one of your television advertisements ran 2 times this week. Your target audience is 1 million people. You discover that your ad has a rating of 30 percent, or 0.30. Using the impressions formula

$$\text{Impressions} = 0.30 \times 1{,}000{,}000 \times 2 = 600{,}000 \text{ Impressions}$$

Link to Learning: Nielsen

If you're going to be a marketer, you'll need to know Nielsen Company, a "global leader in audience measurement, data and analytics, shaping the future of media" (Nielsen, 2023). To better understand what the Nielsen Company is about, read this Investopedia article.

Check out Nielsen's 2022 Global Annual Marketing Report about current trends.

Conversion Rate

A conversion rate refers to the percentage of an audience that has completed a desired action. The formula for conversion rate is

$$\text{Conversion Rate} = \frac{(\text{Number of Converts})}{(\text{Audience Size})} \times 100\%$$

For example, a web page advertisement may be attempting to get a viewer to click on the advertisement.

The conversion rate, then, would be the percentage of those viewers who clicked on the advertisement. Using our example of the web page advertisement, let's assume that our audience size 500,000 and the number of converts (that is, the number of viewers who click the ad) is 100,000. Our conversion rate would be

$$\text{Conversion Rate} = \left(\frac{100{,}000}{500{,}000}\right) \times 100\% = 0.020, \text{ or } 2.0\%$$

While industry averages can vary, generally a conversion rate somewhere between 2% and 5% for traditional marketing and above 10% for digital marketing is considered effective.

Return on Ad Spend (ROAS)

Marketers are also often interested in calculating the return on advertising spending. Return on ad spend (ROAS) is a metric for the amount of revenue earned for every dollar spending on advertising. Unlike the other metrics discussed, ROAS utilizes the revenue from advertising. To calculate ROAS, you will simply divide the revenue for a given period by the advertising dollars in the period. The ROAS formula is

$$\text{ROAS} = \frac{\text{Revenue}}{\text{Advertising Dollars}}$$

Let's assume your company spent $1,000 on an online campaign in a given month. The revenue generated from this campaign was $5,000. Your ROAS for this campaign in this period would be $5, or a 5:1 ratio:

$$\text{ROAS} = \frac{\$5{,}000}{\$1{,}000} = \$5$$

In other words, for every $1 spent on advertisement, your company generated $5 in revenue.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Ally is a new marketer trying to determine the return on ad spend that her first marketing campaign netted. She spent $500 on a Facebook advertisement, and the ad brought in $20 of revenue. Which of the following would be the return on ad spend (ROAS)?

a. $25
b. 5:1
c. 10,000
d. $2.50

2.

You show your friend the Adidas logo and ask them which brand it identifies. This is an example of _____.

a. brand impression
b. brand awareness
c. brand recognition
d. conversion rate

3.

Coco is trying to determine if the most recent ad she created and launched has been effective at increasing revenue. Which of the following metrics would you recommend Coco use?

a. ROAS
b. Impressions
c. Brand awareness
d. Brand recognition

4.

Indicators that measure the effectiveness of an advertising campaign are known as _____.

a. KMAs
b. Recalls
c. ROIs
d. KPIs

5.

Liam is interested in the ratings of a recent television advertisement. They are interested in calculating the impressions of this ad. Liam knows that the target population of this ad is 500,000, and the ad runs three times. Which information is Liam missing to calculate impressions?

a. Converts
b. Rating
c. Conversion rate
d. Number of weeks the ad ran

Marketing Dashboard: Measuring the Impact of Advertising

When marketing professionals purchase advertising, they are primarily interested in who will see it. Advertising depends on views, as it is not direct response like search or email marketing. Therefore, marketing professionals are looking for the biggest bang for their buck. This is where cost per thousand (CPM) comes in. The "M" in cost per thousand represents the Latin term *mille*. CPM is the cost to advertise to 1,000 people.

An advertisement's cost per thousand depends on a variety of factors. One such factor is how targeted an ad is to a given audience. Targetability increases the cost per thousand. Another factor is whether the media is digital or traditional. Traditional media (television, radio, print, and outdoor) have a higher CPM than digital advertising. Niche media may have higher CPM than mass media.

There are some legitimate criticisms of CPM. First, an ad view does not indicate an intent to purchase. It simply means that a prospective customer saw the ad. We have no way of knowing whether the ad was persuasive or changed behavior. CPM does not allow us to track behavior. Next, ad views may be duplicative or not properly targeted, potentially wasting the impression. For example, if you see an ad for the same running shoe three times and you're not a runner, the brand wasted three impressions on you because you have no intent to purchase. Finally, ads may not run or load as intended, wasting advertising dollars on a failed impression.

$$\text{CPM} = \frac{(\text{Campaign Cost})}{(\text{Impressions})} \times 1{,}000$$

Let's revisit our ice cream shop from Integrated Marketing Communications. We decided to run an advertising campaign in the local newspaper. We paid $1,000 for 2,000 impressions. What is our CPM?

Answer

$500

Last period, we acquired 15 customers from our advertising campaign with an average customer lifetime value of $50. Did our advertising campaign have a profitable result in the last period?

Answer

No. We spent $1,000 on advertising and gained $750 in revenue.

Let's say we reallocate our $1,000 advertising spend on a more targeted campaign. Do you expect that our CPM will increase or decrease?

Answer

CPM will most likely increase because targeted media typically has a higher CPM.

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15.5: Public Relations and Its Role in the Promotion Mix

Learning Objectives

By the end of this section, you will be able to

- Define public relations and discuss its role in the promotion mix.
- List and describe the tools of public relations.

Public Relations Defined

With today's ever-changing media landscape, maintaining a positive image with the public is of utmost importance. This is where public relations becomes an important tool in the promotion mix. Public relations is about creating and maintaining a favorable public image. Unlike other tools in the promotion mix, public relations is not paid for; it is earned media. The result of public relations is called publicity.

There are two sides to public relations. The first is considered the "fun" side, where marketers get to share stories of all the great things an organization is doing. This helps to promote the brand's image in a positive, feel-good way. The other side of public relations is damage control. This is when something negative happens within an organization and marketers must perform crisis communication—that is, addressing issues that could negatively impact the reputation of a brand. Consider in 2017, amid the height of Black Lives Matter protests, when PepsiCo aired a commercial featuring Kendall Jenner calming an angry crowd by simply handing a police officer a can of Pepsi (Business Insider, 2017). Activists slammed Pepsi for trivializing such an important issue. Originally, Pepsi released a statement supporting its advertisement, but public backlash soon changed that position, and the company issued an apology, saying it had "missed the mark" with its intentions.

Careers In Marketing: Public Relations

A public relations professional shares information on behalf of a company. There are various types of public relations jobs, and knowing the kinds of skills you should have to get the job is important. Read this article to learn about the various types of jobs and the necessary skills.

Read this article from *Harvard Business Review* to gain insight into whether a job in public relations is right for you. And learn from this expert guide how to get a job in public relations. Want to learn about what a day looks like for a public relations professional? Check out this video from a public relations professional about what a day in the life of a real-world public relations professional looks like.



The Role of Public Relations in the Promotion Mix

In many organizations, public relations has been an afterthought or a sidebar to marketing, something used only when a crisis has occurred. However, public relations is more important than ever as the public seeks brands whose values are aligned with their own and is not hesitant to boycott those who don't. In fact, according to a 2017 survey, 86% of consumers say that authenticity is a key factor when deciding which companies and brands they will support (Business Wire, 2017). For example, in the past several years, the public has become more aware and vocal about the use of Photoshop in advertisements. In fact, many celebrities have spoken out about their own photos being Photoshopped in media and how unauthentic it translates to the public. Similarly, companies such as CVS, Dove, and Target have stopped—or limited—the use of model editing to challenge unrealistic beauty standards.

The Tools of Public Relations

In an age of information access and sharing, companies can no longer afford to hide behind their mistakes, nor can they afford to miss opportunities to boast about their good deeds. Marketers must be keenly aware of how the organization's image is portrayed publicly—to all interested parties. There are several tools that marketers should use to positively impact this image. While public relations and publicity aim to promote positive images to the public, marketers must use public relations to minimize the impact of negative publicity as well.

Consider CNN's *Blackfish*, which aired in 2013. The documentary shed light on the consequences of keeping orcas in captivity, forcing them to perform for sightseers at sea parks. It took a deep dive into the lives of these captive marine mammals and how sometimes such animals can be deadly, as was witnessed at SeaWorld in 2014 (Wikipedia, Inc., 2024). The results of the negative publicity created by the documentary caused SeaWorld's park attendance, as well as its market value, to drop (MarketWatch, 2014).

Link to Learning: Examples of Bad Publicity

Watch the *Blackfish* official trailer and see for yourself the message behind this documentary, and read here about the impact this negative publicity had on SeaWorld.



You can find numerous examples of bad publicity on the Internet. Check out this article that identifies many from companies such as Easy Jet, Tinder, and Tesla.

Press Relations

Press relations entails establishing and maintaining positive relationships with those in the media, such as newspapers and television. Press relations are controlled internally by the marketing team and often include the marketer sending press releases and other stories that help to maintain a positive image of the brand. Although press relations are controlled internally, it is up to the media whether the stories will be disseminated to the public. Consider your local news station that covers a story of a local bakery

raising money for charity. The bakery owner or marketer has most likely sent the news station a press release of the upcoming event. The local news station will decide if it will or will not cover the story in its newscast. The more positive relationships the bakery team has with the local news station, the more likely it is to receive media coverage.

Public Affairs

Another important public relations tool is public affairs—efforts to influence public policy and engage with public officials and trade associations. Public affairs often align with non-corporate entities, such as nonprofits and government agencies. However, for-profit organizations are becoming more and more involved in public affairs. Organizational leaders and marketers often share their economic impact with legislators to help policy makers amend or set new policies. For example, when Walmart plans to open a new store, the executives often reach out to local legislators to explain the goodwill and positive impact on the local economy. They continue conversations with local politicians to show they are "good citizens" of the community and help to impact local (as well as state and federal) legislation (Quorum, 2022).

Lobbying

Very similar to public affairs, lobbying involves the intention of influencing public policy and law. Lobbying is a way for companies to influence legislation in their favor. Lobbying is a large part of the political system in the United States, and many companies and industry associations contribute massive amounts of money to influence politicians. Lobbying has come under much scrutiny over the years as companies continue to grow and have larger resources to influence laws and legislation in their favor as opposed to favoring the individual or the greater society (Frankenfield, 2022).

For example, in 2020, the National Association of Realtors was the top lobbying association in the United States, followed by the U.S. Chamber of Commerce, Pharmaceutical Research and Manufacturers of America, and the American Hospital Association. Together, these associations spent over $200 million lobbying to impact local, state, and federal legislation (Statista, 2022).

Events

Organizations are increasingly sponsoring or hosting special events to show support for various causes. Such events are also a way to showcase the company, products/services, and/or brands to the public. Often, companies use special events to show the public that their values and ideals are part of their business model. For example, Kroger has sponsored and volunteered for the Susan G. Komen Central Indiana Race for a Cure for many years. With one of its division offices located in Indianapolis, Indiana, the company has been covered by media for its involvement in the local chapter of the Breast Cancer Foundation (Susan G. Komen, Inc., 2016). The events not only provide a much-needed community service but also generate positive publicity for the company.

Digital Media/Social Media Marketing

Social and digital media have become important tools for marketing managers, and the use of these platforms is advantageous in public relations as much as in advertising. The biggest advantages to using digital tools in public relations and publicity is that they can reach a larger audience in a short time, are fairly inexpensive in comparison with other mediums, and allow for real-time communication.

The San Francisco Batkid took social media by storm when the campaign was rolled out by Make-A-Wish Foundation. A boy fighting leukemia wished to be Batman, and the campaign went viral with the hashtag #SFBatman. People everywhere took time to volunteer and take part in the boy's dream.

Link to Learning: #SFBatman

Check the #SFBatkid Twitter hashtag here to see the Batkid's journey, watch the trailer to a movie telling his story, and watch a video showcasing the public relations campaign.





Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

What is a promotion mix element that is earned rather than paid for?

a. Public relations
b. Advertising
c. Television advertisements
d. Web page advertisements

2.

Which of the following is a way companies attempt to influence public policy and law?

a. Press relations

b. Events
c. Lobbying
d. Publicity

3.

Mikel does not have a lot of money for marketing his new business. But he wants to raise awareness of his company and decides to commit to handing out free water at a local 5K run. Which of the following is Mikel participating in?

a. Events
b. Lobbying
c. Press relations
d. Public affairs

4.

As a marketer, you are responsible for creating and maintaining positive relationships with the press. Which part of public relations are you responsible for?

a. Lobbying
b. Publicity
c. Public affairs
d. Press relations

5.

As a new business owner, Michaela is attempting to sway local leaders to give the business a tax cut for the first year of operation. She invites all the local officials to a public meeting, where she presents the anticipated economic impact of her business. Michaela is engaged in which public relations tool?

a. Press relations
b. Public affairs
c. Lobbying
d. Events

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15.6: The Advantages and Disadvantages of Public Relations

Learning Objectives

By the end of this section, you will be able to

- Discuss the advantages of public relations.
- Discuss the disadvantages of public relations.

Advantages of Public Relations

From a business perspective, the greatest advantage to public relations is cost; public relations is not a paid form of promotion. However, other advantages accompany a well-thought-out public relations strategy.

Increasing Brand Credibility

Because public relations are unpaid and come from an objective source—news media—they are perceived as much more credible than paid advertising. In fact, it is the most credible and persuasive form of promotion. Most consumers value the opinions of news media and opinion leaders over that of a company's best advertising.

Increasing Sales and Leads

Another advantage of public relations is that of sales and leads. Again, because public relations is considered a more credible source of information, various public relations tools can help increase sales and leads for the organization. Imagine you are attending an event raising money for the local animal shelter because you are a huge animal advocate. You see signs that an organization unfamiliar to you is the lead sponsor. While you may never have heard of this organization, let alone considered buying from this company in the past, the fact that it is helping raise money for the local animal shelter sways your decision to do business with them. For example, let's look at Campfire Treats, which makes dog treats. This company was one of the first in its industry to embrace the Better Chicken Commitment (BCC) to ensure better treatment of chickens (Hardt, 2021). The company has gained industry publicity and is becoming popular with pet owners who embrace more humane animal treatment (Pets+, 2021).

Link to Learning: Pet Food Industry.com

Check out this Pet Food Industry.com article to learn more about Campfire Treats and its commitment to BCC. If you're interested in learning more about the product, check out this video review from Top Dog Tips or this article from Groovy Goldendoodles.



Positive Brand Image

Because consumers are more likely to patronize organizations whose values align with their own, public relations has the distinct opportunity to provide a positive brand image to audiences. When organizations are authentic in their values, it increases loyalty and brand equity.

Cost-Effectiveness

As you've already learned, public relations is not a paid tool in the promotion mix. Several media outlets can pick up a good brand or company story, exposing the promotion to a large audience. Considered the Ice Bucket Challenge that went viral in 2015. Pat Quinn and Pete Frates first promoted the challenge as a way for the public to better understand how Lou Gehrig's disease, or amyotrophic lateral sclerosis (ALS), affects those with the disease. The challenge raised over $115 million worldwide for the disease and was an extremely cost-effective-and fun-way to raise funds when it went viral on social media (The ALS Association, 2019).

Disadvantages of Public Relations

While public relations is a cost-effective way to reach a large audience, it does come with its own set of challenges, including no direct control, lack of guaranteed results, and difficulty in evaluating effectiveness.

No Direct Control

Unlike other tools in the promotion mix, marketers have no direct control over public relations. In other words, the media controls how the organization is portrayed, when—or if—the coverage will appear, and where it will be placed. This is why press relations is such an integral part of the public relations strategy (TLE: The Lonely Entrepreneur, 2017).

Lack of Guaranteed Results

Proficient marketers will spend time crafting the perfect press release, curating photographs, and getting just the right message to the media. They can even have excellent relationships with media personnel, but it is ultimately the decision of the media if it will publish a story. A story buried deep in a newspaper's pages or a blur during a news program may not create the results marketers intended.

Difficulty of Evaluating Effectiveness

Public relations activities can be difficult to measure. A marketer can observe media mentions and stories, but their impact on the audience can be difficult to determine. Other tools in the promotion mix can be targeted to the audience of interest, but public relations is not. As such, marketers should consider paying keen attention to areas such as website traffic and social media mentions or shares to determine who sees the press and what they say about it.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

After watching a TikTok, you learn that Thinx—a company that produces period underwear—has donated over $25,000 in period and other products to Afghan women who have recently fled their country. Because of this, you decide to purchase Thinx products. Which advantage of public relations has been achieved in this scenario?

a. Increased sales and leads
b. Lack of direct control
c. Guaranteed results
d. Direct control

2.

Public relations has all the following advantages except _____.

a. increased brand credibility

b. increased brand image
c. direct control
d. increased sales and leads

3.

When Story Land, a children's museum in New Hampshire, reopened, it utilized public relations. Numerous local television stations picked up and reported the story, providing free marketing to potential customers. The company bet on the positive virality of its press release, which worked in its favor. Which disadvantages explain why Story Land "bet on the positive virality"?

a. No direct control
b. Increased brand recognition
c. Increased sales
d. Guarantee of results

4.

Which of the following is a true statement concerning public relations?

a. Public relations is more expensive than advertising.
b. Public relations has more of a guarantee of positive results than other forms of promotion.
c. Public relations has the most message control of the various forms of promotion.
d. Public relations is free but has no guarantee of results.

5.

When Taco Bell was hit with a lawsuit claiming its seasoned beef was only 35% beef, the company used social media to show its ingredients, a wildly successful campaign. Which of the following was Taco Bell hoping for?

a. Guaranteed results
b. Improved brand image
c. Direct control of the message
d. Increase sales and leads

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15.7: Ethical Concerns in Advertising and Public Relations

Learning Objectives

By the end of this section, you will be able to

- Illustrate ethical issues with respect to advertising.
- Illustrate ethical issues with respect to public relations.

Ethical Issues Related to Advertising

Marketers must be keenly aware of not only the legal implications of advertising, but also the ethical ramifications. The Federal Trade Commission (FTC) has several laws that help to protect consumers against false claims in advertisements. The watchdog group Truth in Advertising is an independent, nonprofit organization that "empower[s] consumers to protect themselves and one another against false advertising and deceptive marketing" (Truth in Advertising, 2022).

Truth in Advertising

Every year, Americans spend billions of dollars on health-related products, such as supplements, exercise programs, and nonprescription medication. Unfortunately, many advertisements claim that these—and many other—products will perform in a way that has not been proven. Not only can such claims be very harmful to individuals, but they can also get companies in big trouble.

In 2021, Subway was put in the spotlight by its own franchisees for its "Eat Fresh" slogan. The franchisees claimed that the slogan was misleading, that Subway's ingredients were often days or weeks old when they arrived at the stores, and that the meat was laden with chemicals (Dominko, 2021).

Advertising to Children

Marketers must be keenly aware of how they advertise to children. Children are exposed to advertising just as often as adults. It is estimated that children view more than 40,000 commercials per year (Kunkel et al., 2004). However, children and youth do not understand how to decipher advertisements that are trying to get them to want something. For products that are harmful to, not meant for, or illegal to sell to children, marketers must steer clear of advertising to children.

The vape company Juul found itself in hot water in 2019 when it was accused of marketing to teens. The company advertised its product—intended for adults only—on websites such as Nickelodeon, the Cartoon Network, and Seventeen, all sites directed toward youth (Belluz, 2019).

Advertising Harmful Products

When organizations run advertisements for potentially harmful products, they can be held legally liable for the claims and for any harm caused by the product. Even if the company is not held legally liable, the reputation of the business can be damaged (Thompson, 2016).

Have you ever noticed that in a prescription drug commercial considerable time is spent on the side effects of the medication? Or that there is a disclosure at the bottom of the screen that the actor is not an actual patient? These are all required by the Federal Food, Drug, and Cosmetic Act (FFDCA), the Food and Drug Administration (FDA), and the FTC to adhere to truth in advertising expectations.

Ethical Issues Related to Public Relations

Similar to being truthful in advertising, marketers must also be aware of how they disseminate information via public relations. Again, with the increase in social media and the Internet in general, it is much easier for consumers to find information regarding companies. In addition, it is much more commonplace for consumers to call out companies that are being unethical or dishonest. It is much easier for organizations to be honest and transparent upfront than try to dig themselves out of a public relations nightmare.

Link to Learning: IKEA

The start of the COVID-19 pandemic required the entire world to shift its perspective. This was true for marketers as well. Many companies changed their marketing strategies from selling goods and services to creating feelings of goodwill and solidarity. IKEA, the Swedish furniture manufacturer, was no exception. In a marketing campaign launched early in the pandemic, the company offered six ways to build a furniture fort, giving the public ways to cope with being quarantined. The campaign earned a nod in *AdWeek*'s most notable advertisements (Spary, 2020). Read more about the campaign, and see the forts, here.

Transparency

An important part of managing public relations is to disseminate information to the public. It can be a very effective way of gaining loyalty and interest in the brand. The more transparent a company is to its target market, the more trust consumers have in the brand.

Whole Foods, known for offering natural foods, faced scrutiny over its mislabeling of genetically engineered foods. The company's top priority became transparency, and it requires every product sold as non-GMO to go through a verification process (Richman, 2016).

Selective Truth Telling

Selective truth-telling is a practice in which a person or organization tells a portion of the truth but omits other portions of the truth. Particularly in the face of scrutiny, marketers have always had to decide how much of the truth should be provided to satisfy the public but also protect the organization. In recent years, many organizations have been increasingly telling the whole truth upfront to avoid being called out later.

Verifying Facts and Information

Fact-checking is a process to verify facts on an issue. Marketers must do their best to present information that is valid to their target. This should be done before the information gets released to the public. In a society of "fake news," consumers are more skeptical than ever about information. Obviously, presenting information that is not factual will lead to decreased trust from the public.

Companies with a Conscience: TOMS

In 2006, Blake Mycoskie founded TOMS shoes (see Figure 15.6), the name of which comes from the word "tomorrow." TOMS is committed to its One for One model: for every item purchased, an item is donated to those in need (Mycoskie, 2011). Since its inception, TOMS has also committed one-third of its profits to grassroots movements (TOMS, 2022).



Figure 15.6 TOMS is an example of a company that built a company, product, and mission focused on giving. (credit: "Spring" by molltiply/flickr, CC BY 2.0)

> TOMS remains transparent, and the company's behavior is aligned with its values. In every advertising campaign launched, TOMS' philanthropic mission is consistently reinforced to the public. As a result, it's nearly impossible for anyone to think of TOMS as anything but aligned completely with its mission, whether one is visiting the company's website, viewing print media, or looking at the company's social media (Shewan, 2022).

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15.8: Chapter Summary

In this chapter, we discuss the importance of advertising and public relations in the promotional mix. Major decisions that need to be made in order to successfully build a strong advertising campaign include establishing objectives, creating an advertising budget, developing a strategy, executing the campaign, assessing and evaluating the program, and post-testing the advertising. The use of metrics to measure the success provide key information to marketers and include brand recognition and/or awareness, ad views, conversion rates, and return on ad spend.

The advantages and disadvantages of public relations as it impacts the promotion mix were discussed, along with related ethical issues. The tools used to carry out public relations and publicity were explained.

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15.9: Key Terms

advertising | paid communication messages that identify a brand or organization and are intended to reach a large number of recipients

aided recall | a type of advertising posttest that uses cues to assist a sample audience in recalling brands and products in an advertisement

all-you-can-afford approach | advertising budget approach that ensures everything else in the organization is budgeted for and then sets aside the remaining funds for advertising

attitude tests | a type of advertising posttest that investigates the attitudes of a sample target audience toward a product or service

brand awareness | metric used to determine if audiences can recall information about a brand

brand recognition | the ability of a campaign audience to recognize and identify a specific brand

comparative advertising | type of advertising that showcases the benefits and values of one product as compared to its competitors

competitive-parity approach | advertising budget strategy that relies on setting budgets based on the expected budgets of competitors

conversion rate | the percentage of an audience that has completed a desired action

engagement | any interaction with advertising content

frequency | how many times someone is exposed to an advertisement in a given time period or how many times an advertisement is shown in a time period

impact | how quickly members of the audience receive an advertising message

impressions | quantifying how many times an advertisement appears in a medium

informative advertising | a type of advertising intended to raise awareness of a product through educational communication to increase demand of the product

inquiry test | a type of advertising posttest that runs two or more similar ads on a limited scale and determines which of the ads are most recalled by and effective for respondents

institutional advertisements | advertisements intended to create a positive image or support for an entire organization

jury tests | a form of pretesting in which the respondents discuss the advertisements that are most likely to induce a purchase

key performance indicators (KPIs) | indicators (metrics) that measure how an advertising campaign is achieving certain goals or objectives

lobbying | networking and other efforts that have the intention of influencing public policy and law

objective-and-task approach | advertising budget strategy that is based on the objectives set previously for the advertising plan

percentage-of-sales approach | advertising budget strategy that utilizes prior years' sales or predicted year's sales and sets a percentage of those sales aside for advertising

persuasive advertising | a type of advertising that aims to highlight the benefits of a product or service being advertised

portfolio tests | a type of advertising pretest that consists of respondents browsing through various versions of an advertisement and then being asked to recall certain details from each

press relations | efforts to establish and maintain positive relationships with those in the media by sending press releases and other stories that help to maintain a positive image of the brand

pretesting advertising | research that predicts the performance of an advertisement before it airs

product advertisements | advertisements that promote a specific product within the organization's product mix

public affairs | efforts to influence public policy and engage with public officials and trade associations

public relations | any actions that help to create and maintain a favorable public image

publicity | notice or attention given by the media

pull strategy | advertising strategy intended to bring audiences to the product

push strategy | advertising strategy aimed at pushing the brand in front of an audience

reach | the estimated number of potential customers you can reach with an advertising campaign

reminder advertising | advertising aimed at bringing a product back into the forefront of the consumer's mind

return on ad spend (ROAS) | metric that measures the amount of revenue earned for every dollar spent on advertising

return-on-investment (ROI) approach | advertising budget strategy that focuses on every dollar spent on advertising; a return of that dollar—plus some—is expected

sales test | a type of posttest in advertising that determines how many sales will be made based on a test market

theater tests | a form of advertising pretest in which the audience is shown advertisements—usually television ads—in the context that they would be shown to the entire market

unaided recall | a type of advertising posttest that does not use any cues or prompts to test the recollection of the advertisement message

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15.10: Applied Marketing Knowledge- Discussion Questions

1. List the objectives of advertising.
2. Explain the five approaches to creating a marketing budget.
3. List the tools used for public relations and explain how each is used.
4. List the tools used for publicity and explain how each is used.

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15.11: Critical Thinking Exercises

1. Explain the key metrics used to measure the success of an advertising campaign.
2. List the advantages and disadvantages of public relations.
3. Provide examples of ethical issues related to advertising and include ways to avoid them.
4. Provide examples of ethical issues related to public relations and include the ways to avoid them.

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15.12: Building Your Personal Brand

The act of building a personal brand requires a commitment that comes with having a well-developed and clear path. One of the many tools that a person can use to set and review their progress is the GOOD framework from Quantum Workplace. This framework can be used to set goals, identify obstacles and opportunities, and make decisions. As with any strategic goal-setting framework, the important thing to remember is that it should be used organically, allowing for the shifts that come with growth and development.

The framework includes the following parts:

- Goals: What goals are you setting? What needs to be done to achieve them?
- Obstacles: What is standing in your way? Can you work around or remove the obstacles?
- Opportunities: What can you pursue for learning and development to move you forward?
- Decisions: What decisions do you have to make to reach your goals? What will you do more of? What will you do less of?

This framework can be used both personally and professionally. The idea is to monitor and review throughout the year to determine whether you are on track, need to reassess, have achieved your goals, or need to create new ones.

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15.13: What Do Marketers Do?

Send a message to your college or university marketing department asking for a time to talk to the marketing manager about their job for your class. These positions vary greatly based on how many functions they outsource. Use the following questions as a guide to dig deeper into their process and responsibilities.

1. Please share with me your employment history and how you got to where you are today.
2. Can you summarize your job responsibilities?
3. Is the organizational structure of the company you work for private, nonprofit, or state?
4. Can you share with me what functions, if any, are outsourced (for example, website design, website maintenance, graphic design, or printing of materials)? How long have you been outsourcing these functions?
5. How many employees report to you, and what is person's role?
6. What challenges do you face with the structure you currently have in place?

Feel free to add any questions you might have. Thank them for their time. From this interview you should be able to gain more insight into how different areas of marketing are handled within a given organization's marketing department.

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15.14: Closing Company Case

Peloton

If you have ever taken a class at your local gym, you know the excitement of the camaraderie and competition that takes place when you are in a class of like-minded individuals all sharing the same goal and passion for performance. Former Barnes & Noble e-commerce executive John Foley liked riding his stationary bike but wanted to bring the gym class experience to his at-home riding sessions. And in 2012, the idea for Peloton was born (Valinsky, 2020).

Hailed as “Netflix for Fitness,” Peloton introduced its first bike in 2013. The company had slow and steady growth. With several rounds of funding, the start-up took off and began to take hold among consumers who enjoyed the rigorous workouts provided by trainers through the built-in bike video screens and subscription service to the various “rides” (Valinsky, 2020).

For Christmas 2019, Peloton debuted what turned out to be a significant ad for the young brand. Featuring a husband buying a Peloton for his wife, the ad took viewers through the mind and thoughts of the wife while she rode her bike and seemingly got more “in shape.” Viewer outrage kicked up as some viewers believed the ad depicted a husband body-shaming his wife with the gift of exercise for the holidays. Check out the Peloton Christmas Commercial from 2019.



While the ad may have sparked some controversy, it did one thing successfully—it got people talking about Peloton. The ads allowed the viewer to glimpse the life of a Peloton user—it showed the fun method of the video courses, the use of the bike no matter what the weather outside, and the potential transformation of the Peloton user.

The other element of the ad’s storyline is that it sparked a parody ad produced by Maximum Effort, a film production and digital marketing agency (Griner, 2021). The agency was founded by the actor Ryan Reynolds, and the parody ad featured a voice-over by Reynolds himself. Although the ad was for Aviation Gin, a brand owned by Reynolds, the ad featured the “wife” from the Peloton Christmas ad. The parody ad did three things—kept people talking about Peloton, created a memorable story for Aviation Gin, and connected Reynolds and the Peloton brand (Griner, 2019).



As Peloton began to take off in the United States, the country literally came to a screeching halt. In January 2020, the COVID-19 pandemic hit the country. Within months, citizens everywhere were quarantined, with gyms, restaurants, travel, businesses—everything—shut down. What started as 14 days to slow the spread turned into months. Remote work and learning became the norm, and people started to feel restless and cooped up in their homes.

As the pandemic surged, so did Peloton. It picked up the fitness gauntlet, and in 2020, for the first quarter ever, the company turned a profit with a 172 percent increase in sales, stock up 220 percent, and over 1 million subscriptions. The new challenge for the organization was in the fulfillment of orders.

During the pandemic of 2019–2021, Peloton became a household name. It was the topic of discussion on the Fox News show *The Five*. Hosts Greg Gutfeld and Dana Perino regularly discussed the joy they got from using their Peloton bikes. Consumers everywhere were "riding out" the pandemic on a Peloton.

Even as sales surged and Peloton became a household name, it was being woven into the fabric of the American culture, such as on the '90s hit show *Sex and the City*. With the aging of the show's stars, the demographic of viewers was prime for a reboot. And so, in late 2021, the show's stars reprised their famous roles, and *And Just Like That* debuted.

The show premiered on HBO to a record audience.

Per HBO Max, the *Sex and the City* revival starring Sarah Jessica Parker, Cynthia Nixon and Kristin Davis had a strong 24-hour performance that ranks as the most viewed series premiere of a new HBO or HBO Max series on the streaming service. Overall, the *AJLT* opener ranks in the Top 10 of all HBO Max's movies and series debuts, including both HBO and Max originals, trailing just some of the tentpole Warner Bros. movies that launched on the platform (Pisani & Graham, 2021).

> *However, the huge debut marked a significant moment for Peloton. In the first episode, one of the major stars of the show, Mr. Big, dropped dead of a heart attack after a spin on his Peloton. Throughout the episode, the love affair Mr. Big has with his bike and his appreciation for the instructor provide the major plotline to the show. This led to the question, How would the character's death affect Peloton?*

Product placement has always been a significant public relations initiative of consumer product companies. The *James Bond* franchise traditionally partners with well-known brands for placement in the movies and use by the popular cultural icon. The use of real products helps connect the consumer to the movie. It is usually a boon to the brand, and the movie benefits from the more realistic quality the product adds to the movie.

In the case of Peloton and Mr. Big, Peloton did not pay for the placement, but they did agree to the brand's use in the show. According to a spokesperson for the company, the plotline was a complete surprise (Del Rosario & Andreeva, 2021). So how does the show recover from "death by Peloton"?

Enter a new parody advertisement developed by Ryan Reynolds and Maximum Effort. When Reynolds created the ad for Aviation Gin that poked a little fun at Peloton and its "body-shaming" commercial, the actor became connected with the marketing arm of Peloton. It was time for a new parody. In this go-around, the focus would be on Peloton and Mr. Big. Actor Chris Noth, who played Mr. Big in the television show *Sex and the City* and the reboot *And Just Like That*, agreed to appear in the ad. Less than 48 hours after the show debut and Mr. Big's death, Noth appeared in a Peloton ad, which shows him very much still alive. The big win all around was for Peloton and its significant increase in brand awareness.

The response from Peloton to the death of the main character Mr. Big on *And Just Like That* was to create an advertisement showing him very much alive—a clever approach and certainly an effort that gained Peloton brand recognition. Watch his death on the television show.



Case Questions

1. How did Peloton reach audiences with its message about the advantages of at-home exercise on its bike and corresponding trainer subscription services?
2. How was Peloton able to discern the effectiveness of its advertising when it debuted the 2019 commercial that was dubbed "body-shaming"?
3. What are some of the ways Peloton has generated brand awareness through publicity?
4. Peloton became the subject of the first episode of the show *And Just Like That*, a reboot of the hit show *Sex and the City*. What are the advantages and disadvantages to the product placement of Peloton in the show's premiere episode?

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SECTION OVERVIEW

15.16: The Promotion Mix- Personal Selling and Sales Promotion

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CHAPTER OVERVIEW

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16.1: In the Spotlight

According to Accenture, a global professional services company, “Sustainable organizations are purpose-led businesses which inspire their people and partners to deliver lasting financial performance, equitable impact, and societal value that earns and retains the trust of all stakeholders” (Accenture, 2022). Sustainability is about doing business without negatively affecting society. Without sustainable practices, companies may negatively contribute to issues in the environment, inequality, and social injustice (Spiliakos, 2018). Consumers, employees, and other interested parties are now holding businesses to higher standards: 74% of consumers agree that conducting ethical practices is an important reason to support a company or brand; 65% of employees believe that businesses should leave their employees better off through work; and 81% of sustainable investment indexes outperformed comparable benchmarks in 2020 (Accenture, 2022). According to John Streur, CEO of Calvert Research and Management, “In 2021, we see companies almost competing with one another on sustainability” (Foster, 2022). The proof is in the pudding. A 2021 report by the Weinreb Group found that “there were more chief sustainability officers, or CSOs, recruited in 2020 than in the previous three years combined” (Foster, 2022).



Figure 16.1 Sustainability marketing, which takes into account present consumers’ needs without harming the future, is growing in importance as consumers shift to being more environmentally conscious in their purchasing decisions. (credit: “Hike” by Loren Kerns/flickr, CC BY 2.0)

Barron’s, a respected source of financial news, creates a 100 Most Sustainable Companies list each year. In 2021, the popular kitchen supply store Williams-Sonoma stood out above others because its board consisted of 67% women (Foster, 2016). Williams-Sonoma, Inc.’s 2021 impact report outlined that, at the time of publication, 46% of the company’s products supported one or more of its environmental and social initiatives, and the company aims to increase that amount to 75% by 2030 (Williams-Sonoma Inc., 2022). In 2020, Williams-Sonoma joined the United Nations (U.N.) Global Compact and aligned its corporate goals with the U.N. Sustainable Development Goals (Williams-Sonoma Inc., 2022). To learn more about Williams-Sonoma’s sustainability efforts and plans, review its 2021 impact report, its corporate responsibility web page, and the sustainability section of its website.

Williams-Sonoma is just one example of a company with a vision and a commitment to sustainability. Other companies known for their sustainability commitments and practices include Microsoft, VMware, Intuit, Apple, and Mastercard (Olick, 2022).

In the future, all global companies must commit to, assess, and validate the goal of sustainability; as you'll learn in this chapter, it's becoming a significant factor in how businesses evaluate success. Companies fully embracing this commitment will stand out most to consumers and achieve business success.

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16.2: Sustainable Marketing

Learning Objectives

By the end of this section, you will be able to:

- Define sustainable marketing.
- Explain the three pillars of sustainable marketing.

Environmental Sustainability

Consumers increasingly demand purpose over profits from the brands they work for, shop for, invest in, and allow within their communities. In fact, an IBM study on consumer behavior indicated that 57% of consumers would alter consumption habits to be more environmentally conscious, and nearly 80% of survey respondents indicated that sustainability is essential (Haller, Lee, & Cheung, 2020). Therefore, sustainability is a business imperative. As defined by Philip Kotler, Professor Emeritus at Northwestern University, “the concept of sustainable marketing holds that an organization should meet the needs of its present consumers without compromising the ability of future generations to fulfill their own needs” (Onuoha, 2021). In other words, products and services consumed today should not harm consumers of tomorrow.

Sustainable marketing infuses purpose into socially conscious brands, products, and services. Marketing seeks to differentiate the brand based on mission. Sustainable brands define a purpose, orient to consumers' and related groups' values, align purpose with strategy, and reflect sustainability in marketing. This business strategy gives brands an edge with those who seek brands that align with their values.

The three pillars of sustainable marketing include environmental sustainability, social good, and economic return (see Figure 16.2). You may have heard the term “planet, people, and profits,” which describes the three pillars of sustainable marketing. Businesses meet the needs of the marketplace without sacrificing the future viability of the world. Companies increasingly follow an environmental, social, and governance strategy and use these ESG pillars to guide their work. The topic extends beyond sustainability into doing what’s right socially and ethically. Companies report their quantitative and qualitative results in annual disclosures to share the impact of ESG efforts.

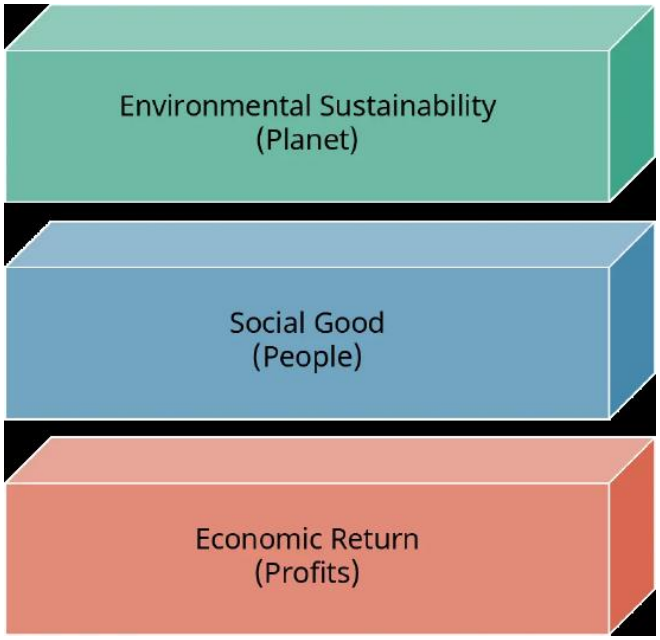


Figure 16.2 Three Pillars of Sustainable Marketing (CC BY 4.0; Rice University & OpenStax)

Link to Learning: ESG

Are you interested in learning more about the elements of ESG? Here are several sources where you can read more:

- Global advisory firm, PwC
- Finance company, NerdWallet
- HubSpot 2022 sustainability report
- Accenture

The environmental pillar focuses on reducing a company's impact on the environment. For example, companies may reduce their environmental impact through recycling, reusing, minimizing waste, and increasing energy efficiency. Stonyfield Organic is committed to the environmental pillar and plans to cut carbon emissions by 30% by 2030. In addition, it plans to focus on energy conservation, waste reduction, and sustainable packaging and logistics (Black Morgan, 2019). Additionally, Subaru of Indiana Automotive operates a "green lean" manufacturing facility designed as a zero landfill. Subaru recycles or composts 98% of its manufacturing waste and incinerates the remaining 2% as waste to fuel (Farzad, 2011).

The social pillar considers a company's consumers and employees and creates a more inclusive environment for its community. Much of the work in the social pillar occurs through responsive programs for employees that increase well-being. However, companies can also reach beyond their walls to impact their communities.

Link to Learning: The Story behind State Bags

There are many examples of companies that work to support their communities. One example is State Bags. State Bags donates a bag filled with school supplies for each bag purchased. It also partners with nonprofits such as Seeds of Peace, Time's Up, and Bottomless Closet to support women and children from underserved communities (State Bags, 2022). You can learn more about State Bags and its work by visiting the company's website or following the State Bags Instagram account.

Adobe is another example of a company that works inside and outside its organization to effect social change by partnering with local nonprofits in the communities where its employees live and work. Adobe has a rich diversity, equity, and inclusion initiative that empowers diverse voices. For example, Gen Create is a digital space for diverse thinkers and creators to collaborate to change the world for the common good. Finally, Adobe provides access to its software to underserved communities so that they can work toward greater equity regardless of location.

Link to Learning: Adobe Gen Create

Check out Adobe's Gen Create program, a place for young creators to collaborate and effect change.

The economic pillar (governance pillar) of sustainability concerns profitability and business ethics. Businesses cannot be sustainable if they are not profitable, which is a clear key sustainability performance indicator. Companies can demonstrate success in the economic pillar through proper governance structures, risk management, and compliance. Proper governance over voting, legal compliance, and accounting standards shows people that companies are following their obligations. Governance also includes business ethics, anti-competitive practices, and tax transparency. At the end of the day, is the company doing the right thing for its investors and all of its interested parties?

Governance structures can be examined to ensure diversity of leadership that aligns with the company's various interested and influential groups. Fortune and Refinitiv partnered to develop a Measure Up initiative to bring transparency to Fortune 500 businesses' diversity, equity, and inclusion work. The initiative reviewed policies, employee resource groups, percentage of minorities in board or leadership positions, and salary parity to determine a score for companies. Companies such as Microsoft, Target, and Gap rated highly on the criteria, demonstrating advanced diversity, equity, and inclusion (Fortune, 2022). Amazon publishes its representation statistics sorted by job level to illustrate how it is making progress in creating a more diverse workforce.

Link to Learning: Measure Up

Learn more about the Measure Up initiative to help businesses build fair and inclusive workspaces. It ranks companies based on their diversity, equity, and inclusion (DEI) disclosure and performance metrics.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

If a brand develops a diversity, equity, and inclusion initiative, which pillar of sustainability is addressed?

a. Environmental
b. Social
c. Economic
d. All of the above are correct.

2.

How does sustainable marketing differentiate from other types of marketing?

a. It is more expensive.
b. It is only for people who care about the environment.
c. It is a business imperative.
d. It is rooted in purpose.

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16.3: Traditional Marketing versus Sustainable Marketing

Learning Objectives

By the end of this section, you will be able to

- Explain how the parties in traditional and sustainable marketing are different.
- Define the different objectives in traditional and sustainable marketing.

Differences between Traditional and Sustainable Marketing

Traditional marketing takes a customer approach and focuses on product, price, place, and promotion for a target audience. Sustainable marketing takes a "stakeholder approach" and considers customers, shareholders, employees, vendors, interest groups, media, and the general public. These groups are interested in the brand's sustainability agenda, which becomes the focus of the marketing effort.

Costco is an example of a company that uses this approach to its sustainability marketing. Costco describes its sustainability agenda this way: "Sustainability to us is remaining a profitable business while doing the right thing." Costco honors three sustainability principles: "For Costco to thrive, the world needs to thrive. We are committed to doing our part to help. We focus on issues related to our business and where we can contribute to real, results-driven positive impact. We do not have all of the answers, are learning as we go and seek continuous improvement" (Costco, 2021). These principles demonstrate a commitment to all of Costco's interested parties. For example, Costco pays its employees above market rates to honor its commitment to support its employees and communities.

Link to Learning: Costco Sustainability Commitment

Costco publishes its commitment to sustainability on its website as a way to be fully transparent about its sustainability strategy. The company shares its code of ethics, mission statement, sustainability principles and responsibilities, and development goals. You can read more about its commitment here.

Traditional business strategy indicates that shareholder return is the primary obligation of companies. However, a sustainable business strategy suggests that companies have a corporate social responsibility (CSR) to use their platforms to improve the world and not cause harm. Furthermore, an environmental, social, and governance (ESG) strategy holds companies accountable for their sustainability work. An ESG strategy uses an organization's influence to make positive changes and develop metrics to show how purpose is measured.

Businesses have always been required to comply with environmental laws, but sustainable companies put the environment in the center, designing for the environment. New Belgium Brewery in Fort Collins, Colorado, is a foremost example of a company designed around the environment. The brand is committed to clean energy to combat climate change. New Belgium Brewery has three principles woven into its business model to keep management accountable for its sustainability goal of becoming carbon neutral by 2030. Those principles are to:

- reduce emissions by creating electricity from wastewater, collecting heat while brewing to reuse, and earning Leadership in Energy and Environmental Design (LEED) certification on its properties
- work with interest groups to advocate for improved climate policies
- improve recycling in the United States through its co-founded glass recycling coalition (New Belgium Brewing, 2021).

Link to Learning: New Belgium Brewery Commitment to Climate

Learn more about New Belgium Brewery sustainability strategies by reading about its commitment to climate.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Traditional marketing takes a customer approach, while sustainable marketing takes a(n) _____ approach.

a. shareholder
b. value
c. economic
d. cost-savings

2.

In sustainable marketing, companies innovate now and do which of the following for the future?

a. Earn money
b. Ensure viability
c. Save money
d. Earn profits

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16.4: The Benefits of Sustainable Marketing

Learning Objectives

By the end of this section, you will be able to:

- Describe the various benefits of sustainable marketing.
- Explain why sustainable marketing is a business imperative.

Purpose-Driven Strategy

A purpose-driven strategy is when companies work to make a difference in their community through their decisions and support of environmental programs. There are numerous benefits to developing a purpose-driven business strategy, including enhanced brand recognition, reduced costs, improved effectiveness, easier regulatory compliance, waste minimization, and enhanced return on investment (ROI) (see Figure 16.3).

Harvard Business School Professor Rebecca Henderson indicates that businesses must adopt a shared value orientation. Doing well and doing good are mutually dependent. Companies cannot do good if they are not doing well. Companies with strong ESG programs outperform the market long-term despite short-term investment (Chladek, 2019).

PepsiCo developed its sustainability program under former CEO Indra Nooyi. Nooyi understood the benefits of purpose to planet, people, and profits. PepsiCo focuses on agriculture, water, packaging, product, climate, and people to create systemic change within PepsiCo and the broader environment. The results of this work are outlined in an annual sustainability metrics report that holds PepsiCo accountable for its purpose. The company earned over $70 billion in net revenue in 2020, illustrating the shared value opportunity (PepsiCo, 2022).

Link to Learning: PepsiCo and Its Purpose-Driven Strategy

Read more about PepsiCo and its commitment to sustainability in its 2021 ESG Report and its ESG Performance Metrics report.



Figure 16.3 Benefits of Sustainable Marketing (CC BY 4.0; Rice University & OpenStax)

Enhanced Brand Recognition

Brands that incorporate purpose earn enhanced brand recognition for that work, which can become a competitive advantage and result in higher profitability. Patagonia is a prime example of a company known for its sustainability programs. Its founder, Yvon Chouinard, envisioned the company as a pillar of sustainability and set the stage for other companies to follow. Patagonia sells outdoor wear that is durable and designed around sustainability. The brand will repair its goods to avoid customers purchasing new ones when they reuse them. It also donates 1 percent of annual sales to good causes worldwide. Finally, Patagonia facilitates an Action Works website that connects interested parties with local environmental protection groups to promote activism (Patagonia, 2022). These sustainability activities are critical to ensuring that Patagonia is a brand with a purpose.

Reduced Costs

Sustainability practices often carry an up-front investment; however, over time, these costs typically return a cost reduction. A survey by Bain & Company indicates five times revenue growth among all brands scoring highest on sustainability (Davis-Peccoud & Deryckere, 2021). This is possible because sustainability programs mean reduced materials, recycling programs, and lower use of natural resources, which are all good for the planet and reduce production costs.

For example, Ben & Jerry's stopped using plastic straws and spoons in its stores (Ben & Jerry's, 2021). This reduction strategy was good for the planet while also decreasing expenses for the business, demonstrating that planet and profits can be mutually beneficial. Founders Ben Cohen and Jerry Greenfield set forth a product, economic, and social mission for the business. In response to the success seen from Ben & Jerry's, many organizations seeking to align profit, planet, and people have adopted the "triple bottom line" mission.

Improved Effectiveness

Sustainability practices can improve organization effectiveness. For example, investing in human capital is an area of importance because potential new employees consider purpose, well-being, culture, diversity, equity, and inclusion when deciding where to

work. MasterCard is an organization that prioritizes its people, and it sees improved effectiveness as a result. MasterCard saw an average annual profit growth of nearly 19 percent in the 10 years it connected purpose to profits (World at Work, 2021).

The Anya Hindmarch company brought attention to the excessive use of plastic bags in 2007 with its "I Am Not a Plastic Bag" campaign (Anya Hindmarch, 2022). The campaign sought to replace plastic bags with an eco-friendly alternative that reuses existing materials. Since 2007, companies have followed suit with reusable tote bags that serve as both a sustainability measure and a means of advertising their brands.

Link to Learning: Anya Hindmarch and Antidote

Anya Hindmarch's "I Am Not a Plastic Bag" campaign was a collaboration with Antidote, a creative agency, that gained loads of press coverage. That publicity contributed to the U.K. decision to charge for plastic bags. Read more about the campaign from the Anya Hindmarch website and Antidote's website. When you're finished, take a moment to be inspired by Anya Hindmarch and her recent sustainability fashion product, a collection of biodegradable leather bags.

Easier Compliance with Regulators

In addition to returning value to shareholders, companies are responsible for following international, national, and local laws. A sustainability agenda goes beyond companies' legal obligations and extends to serving the world better. This strategy eases compliance by going above and beyond what government agencies expect. For example, the U.S. Environmental Protection Agency (EPA) provides regulatory information by sector to provide businesses with clear regulatory compliance criteria.

Link to Learning: EPA Regulatory Information

If you're interested in learning more about the EPA's regulatory information and its compliance criteria per industry, check out this regulatory information by business sector.

Waste Minimization

Environmental measures can reduce waste, creating a healthier planet. Many organizations are focused on waste minimization to demonstrate a commitment to the Earth. For example, McDonald's has set a waste minimization goal of having 100 percent guest packaging derived from renewable, recycled, or certified sources by 2025. This is impactful because single-use plastics are a known source of waste, particularly in the oceans where plastic outnumbers fish in some regions (Matz, 2019).

Enhanced Return on Investment

As with any business strategy, goals and metrics are also important in a sustainability strategy. Organizations expect a return on investment when resources are committed, even with sustainability work. Organizations can examine several factors to determine the financial return on sustainability efforts. They will evaluate the increased interest from investors, changes in brand value, and revenue. Additionally, organizations can consider the well-being of their employees, their impact on the planet, and their efforts to improve the world as another key measure of success (see Figure 16.4).



Figure 16.4 Factors to Consider in Evaluating ROI with Sustainability Strategies (CC BY 4.0; Rice University & OpenStax)

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Which of the following is the sustainability strategy benefit when a company becomes known for its sustainability efforts and they become a competitive advantage?

a. Increased brand recognition
b. Reduced costs
c. Waste minimization
d. Enhanced return on investment

2.

Which benefit of sustainability occurs when brands show their shareholders an economic return on sustainability programs?

a. Increased brand recognition
b. Reduced costs
c. Waste minimization
d. Enhanced return on investment

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16.5: Sustainable Marketing Principles

Learning Objectives

By the end of this section, you will be able to:

- List the principles of sustainable marketing.
- Explain how these principles are put into practice.

Consumer-Oriented Marketing

Consumer-oriented marketing is a solution focused on a customer's need. The product is designed to solve a problem, distributed for convenience, and promoted as a solution to the consumer's needs. A consumer-oriented marketing strategy requires extensive marketing research to understand the consumer's needs. Organizations then must design the four Ps around those needs. Finally, a consumer-oriented marketing strategy requires customer service and feedback to ensure that consumer needs are met. Zappos, known for having a customer-oriented marketing strategy, focuses heavily on customer service and has assembled an extensive team that solves any issue a consumer may face with an order.

Link to Learning: Consumer-Oriented Marketing

Numerous companies are well-known for their consumer-oriented marketing approaches. Read this succinct summary of what Starbucks, Patagonia, Zappos, Amazon, and Nordstrom are specifically doing to understand their customer's journey and build customer loyalty.

For a deeper look into Zappos' strategy, read this article from Entrepreneur that outlines nine steps to Zappos' exceptional service.

Customer-Value Marketing

Customer-value marketing seeks to provide the customer with maximum utility compared to competitors. Customers make a value exchange when purchasing a product, so they naturally ask themselves whether the cost is worth the value of the transaction. This does not mean that all customer-value products and services are inexpensive. In fact, the high price of a product might be an intentional choice by the company to attract a specific target audience. For example, Tiffany & Co. has created a luxury brand around its jewelry's value to customers.

Innovative Marketing

Innovative marketing uses media to capture shoppers' attention and convert them into customers. The ever-changing digital landscape offers myriad possibilities to engage an audience in an innovative marketing strategy. For example, Shedd Aquarium in Chicago took its penguins on a field trip to meet their aquatic roommates for a virtual event in 2020. During the field trip, the Aquarium broadcasted on social media and delighted animal lovers worldwide while promoting the aquarium.

Mission Marketing

Mission-driven marketing aligns purpose and brand. With mission-driven marketing, a company uses its core mission and purpose as the focus of its marketing strategies.

A mission-driven organization can be a for-profit or nonprofit, governmental or nongovernmental, public or private, or religious entity.

Charity: Water is an outstanding example of a mission-driven organization that uses marketing to inspire its audience. Its mission is to bring clean water to communities that face a clean water crisis. The founder, Scott Harrison, has his own story that inspired the mission, and storytelling is integral to implementing Charity: Water's marketing strategy.

Link to Learning: Charity: Water

Charity: water has raised more than $640 million and funded more than 91,000 water projects in 29 countries. Watch this video about Scott Harrison's journey and witness his storytelling abilities as he shares his personal experience around the impact of dirty water.



Societal Marketing

Societal marketing is most akin to the sustainability strategies discussed in this chapter. A societal marketing strategy fulfills social responsibility obligations while satisfying customer needs. Athleta, a Gap company, sells premium-priced performance apparel to female athletes. Its product is designed for a target audience of women in motion. Athleta launched a *Power of She* campaign to celebrate the diversity of women and serve as a societal marketing effort. Additionally, approximately 70% of Athleta's apparel is manufactured from recycled and sustainable materials (Gap, Inc., 2020).

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

_____ uses media as the lead for awareness building.

a. Consumer-oriented marketing
b. Customer-value marketing
c. Innovative marketing
d. Mission marketing

2.

Which of the following puts a purpose at the center of marketing and is implemented most often using storytelling?

a. Consumer-oriented marketing
b. Customer-value marketing
c. Innovative marketing
d. Mission marketing

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16.6: Purpose-Driven Marketing

Learning Objectives

By the end of this section, you will be able to

- Understand issues related to purpose-driven marketing.
- Articulate best practices in purpose-driven marketing.

Brand Purpose

Brands satisfy many people, from employees to investors, customers, suppliers, and the communities they serve. These parties ask for more than a good product at a fair price. They ask for a brand to stand for something more than the product or service offered. Brand purpose is developed deep in an organization's DNA and should be infused in everything the brand says and does.

Accenture conducted a global survey of 30,000 consumers about brand purpose. It found that 62 percent of customers want companies to take a stand on issues such as sustainability, transparency, or fair working conditions. Furthermore, the brand purpose should align closely with the consumer's values to create an optimal purchase choice. Consumers are willing to switch brands if their values do not align (Barton, 2018).

The challenge runs deep. People expect brands to connect to a deep purpose; however, they are intolerant of brands that do so inauthentically. Walmart is an example of a company that received backlash from customers because of what they felt was not authentic. In May 2022, Walmart launched an ice cream flavor for the upcoming Juneteenth holiday. Consumers felt that Walmart was trying to sell a product rather than honor an important day in history (Valinsky, 2022). This example demonstrates the importance of holding a purpose at the center of the brand instead of using it as a means of selling a product.

Bombas knows how to build purpose into its DNA. The innovative, purpose-driven brand built its business on donating socks and underwear to homeless shelters with each purchase. As of this writing, Bombas has donated over 5 million items with the help of 3,500 impact partners in every state (Bombas, 2022). Its message is simple: you buy socks, they give socks. Purpose is at the heart of Bombas's organizational mission, and it will share it with anyone who will listen.

Link to Learning: More about Walmart and Bombas

There are numerous articles about Walmart and the Juneteenth backlash. Here are two worth reading so you can gain better insight into the customer's perspective:

- CNN, *Walmart Apologizes for Selling Juneteenth Ice Cream*
- New York Daily News, *Walmart's Juneteenth Ice Cream Leaves a Bad Aftertaste*

CNN Business interviewed the founders of Bombas to learn more about their work to provide homeless people with socks. Check out this video about how Bombas integrates purpose and business.

Brands That Put Purpose First

The brands that put purpose at the center create ways for their customers to experience purpose. Dove pioneered brand purpose when it developed its Campaign for Real Beauty. Marketing research uncovered that young girls were impacted by the media's beauty standards. Dove took this insight and decided to tackle a systemic societal problem. This multi-decade campaign led to celebrating all types of beauty, redefining how we think of women and impacting self-esteem. Customers could experience purpose because the Campaign for Real Beauty was all about them. The Campaign for Real Beauty was more than just advertising; it reflected who Dove wanted to be in the world (Dove, 2022).

Link to Learning: Dove's Campaign for Real Beauty

Dove's campaign included several ads and commercials. Seeing examples of how companies focus on purpose will help your creativity in future marketing jobs. Explore the commercials created by Dove:

- Real Beauty Sketches, a commercial that artistically compares the gap between self-perception with perception from others



- Anti-photoshopping film *Evolution*, a viral commercial of a behind-the-scenes look at what happens with beauty ads



- Reverse Selfie, a commercial about the impact of social media on young girls' self-esteem



Why was this campaign so successful? Numerous articles and opinion pieces provide insight into its success. Read these two out for a sampling:

- Global Brands, *The Success of Dove's Real Beauty Campaign*
- Digital Marketing Institute, *Dove: A Spotless Approach to Digital Marketing*

Purpose-driven brands speak up, even when it's difficult or costly. If you read the news, you may see brands taking a stand on social issues. Russia's war on Ukraine in 2022 motivated several American companies to cease operations in Russia. It can be costly to cease operations in a country as large and populous as Russia, but companies such as Starbucks and McDonald's decided that their purpose was more important than their profits in this case.

Brands with purpose are intentional about inclusion. While exclusivity can be an effective marketing tactic for luxury brands, purpose-driven brands know that inclusivity is paramount. Procter & Gamble is known as a company that weaves inclusion into the fabric of its organization, from its hiring practices to the use of its paid media.

Link to Learning: Procter & Gamble Prioritizes People

Visit Procter & Gamble's (P&G) "Explore Our Stories" web page to view how the company prioritizes inclusion and creates opportunities for all people. Read three to five stories and consider what P&G is saying about who and what it values. Also, look at the partners that P&G collaborates with to create change in its communities.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Which of the following concepts are related to purpose-driven marketing?

a. Transparency
b. Sustainability
c. Fair working conditions
d. All of the above are correct.

2.

Which of the following is a best practice of purpose-driven brands?

a. Standing up for what's right
b. Good advertising
c. Telling everyone about their purpose
d. Being profitable

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16.7: Chapter Summary

Sustainable marketing is an effort by companies to run their business to serve the customers of today while preserving the world for the customers of tomorrow. Companies are increasingly following an ESG, or environmental, social, governance, structure to bring transparency to their sustainability efforts. Sustainable marketing uses the main drivers of traditional marketing such as customer satisfaction, but it considers a broader set of impacted groups. There are myriad benefits to sustainable marketing as it relates to brand equity, financial measures, and government compliance. Purpose-driven brands stand for something more than what they sell, and they build their organization around that stated purpose.

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16.8: Key Terms

consumer-oriented marketing | marketing strategies focused on customer needs and solving their problems

corporate social responsibility (CSR) | sustainable business strategy where companies use their platform to do good, improve the world, and be socially accountable to their customers and other interested parties

customer-value marketing | marketing strategies in which a company works to provide the customer with maximum value compared to competitors

economic pillar (governance pillar) | the sustainability pillar that concerns profitability and business ethics

environmental | a strategy that holds companies accountable for a sustainability strategy

environmental pillar | the sustainability pillar that focuses on reducing a company's impact on the environment

ESG pillars | the three pillars of environmental, social, and governance that guide corporate sustainability work

innovative marketing | marketing strategies that use media as the method for capturing prospects' attention and converting them into customers

mission-driven marketing | marketing strategies that align purpose and brand by using the corporate core mission and purpose as their focus

purpose-driven strategy | strategy in which companies work to make a difference in their communities through their decisions and support of environmental programs

social pillar | the sustainability pillar that focuses on creating an inclusive environment for the community

societal marketing | a marketing strategy focused on fulfilling social responsibility obligations while also satisfying customer needs

sustainable marketing | a marketing strategy that infuses purpose into socially conscious products and services

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16.9: Applied Marketing Knowledge- Discussion Questions

1. If we agree with the notion that the products and services of today should not harm the people of tomorrow, how would you redesign your favorite snack food to be more sustainable?
2. The three pillars of sustainability are environmental sustainability, social good, and economic return. Why are these three pillars intertwined? What would happen if you had one without the other two?
3. Research New Belgium Brewery. How do the company's sustainability practices benefit the environment, communities, and its financial bottom line?
4. Waste minimization is a key sustainability strategy. Look in your kitchen cabinets and describe the products that could be made with less waste.
5. Review the "This is a True Story" trailer on Charity: Water's website. How has the nonprofit gamified its mission?

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16.10: Critical Thinking Exercises

1. Design a sustainability campaign. Select a product or service that is not currently sustainable and redesign it to be sustainable. Consider how you would change the form, function, packaging, distribution, and/or target audience.
2. Evaluate a purpose-driven brand. Review the website of the footwear company Allbirds. Describe how sustainability is at the heart of its mission as a company.
3. Review the Edelman Trust Barometer. What does this research tell you about the importance of brand trust? Discuss the brands you trust and describe their actions to invoke that trust.

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16.11: Building Your Personal Brand

A workplace study by Blue Beyond Consulting shows that 8 in 10 employees say it's important that their employer's values align with theirs. Furthermore, more than 75% of respondents indicated that they expect their employer and business to be a force for good (Beyond Blue Consulting, 2021).

Consider what you value and how you would like your future employer to honor those values. Research a few organizations to find an employer whose values closely align with yours. Write about how you might integrate your personal purpose with that of your employer to make the change that you wish to see in the world.

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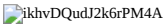
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CHAPTER OVERVIEW

17: Applying Marketing Strategy - Marketing Plan

17.1: Marketing Plan Exercise I - Company Profile
17.2: Marketing Plan Exercise - Mission, SWOT, and Goals
17.3: Marketing Plan Exercise - Segmentation, Target, and Positioning
17.4: Marketing Plan Exercise - Situation Analysis
17.5: Marketing Plan Exercise - Product or Service
17.6: Marketing Plan Exercise - Pricing and Distribution
17.7: Marketing Plan Exercise - Promotion



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17.1: Marketing Plan Exercise I - Company Profile

Assignment 1—Company Identification and Profile

During this course, you will develop a marketing plan as part of a course-long project. The marketing plan you develop will be built throughout the course over the chapters of this textbook.

The purpose of this section of this marketing plan project is twofold:

- To become familiar with the Marketing Plan Template
- To select a company for which you will be building the marketing plan throughout the semester
- To form marketing teams

Instructions:

1. Download the Marketing Plan Template and SAVE THIS DOCUMENT where you can easily access it again because you will be completing additional sections of the plan throughout the course.
2. Select a company which will form the basis of your marketing plan. When selecting a company, please be sure to select a company that will (a) be of interest to you throughout the course and (b) have sufficient information available about the company for you to conduct research and make informed decisions in your marketing plan.
3. When selecting a company, choose a local small business in the community, not-for-profit, or university organization that could benefit from having a marketing plan. Service to the community is part of being an ethical marketer. Please do NOT choose a large company like Nike or Procter & Gamble. In the "real world," you would not prepare a single marketing plan for the entire company; instead, each division and/or product line would develop its own marketing plan.
4. On the Marketing Plan Template, add your name, team members, and course number to the header.
5. Complete the Company Profile Information on the Marketing Plan Template for the company your team has selected.
6. Submit this document to your instructor as directed.

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17.2: Marketing Plan Exercise - Mission, SWOT, and Goals

Assignment 2 - Mission, SWOT Analysis, Marketing Goals and Objectives

Complete the following information about the company you chose to focus on as you develop the marketing plan throughout the course. You may need to conduct research to obtain necessary information.

Instructions: Using the Marketing Plan Template file you created from the Marketing and Customer Value assignment, complete the following sections of your marketing plan:

- Mission Statement
- SWOT Analysis
- Marketing Goals and Objectives

Submit the marketing plan to your instructor for grading and feedback.

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17.3: Marketing Plan Exercise - Segmentation, Target, and Positioning

Assignment 3 - Segmentation, Target Marketing, Persona Development, and Positioning

Complete the following information about the company and products/services you chose to focus on as you develop the marketing plan throughout the course. You may need to conduct research to obtain necessary information.

Instructions: Using the Marketing Plan Template file you created from the Marketing and Customer Value assignment and expanded upon in Strategic Planning in Marketing, complete the following sections of your marketing plan:

- Market Segmentation
- Target Market
- Buyer Personas
- Positioning

Submit the marketing plan to your instructor for grading and feedback.

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17.4: Marketing Plan Exercise - Situation Analysis

Assignment 4 - Situation Analysis

Complete the following information about the company and products/services you chose to focus on for this marketing plan exercise. You may need to conduct research to gather necessary information.

Instructions: Using the Marketing Plan Template file you created from Marketing and Consumer Value and expanded upon in Strategic Planning in Marketing and Market Segmentation, Targeting, and Positioning, complete the following section of your marketing plan: Current Market Situation/Situation Analysis.

Once complete, submit the marketing plan to your instructor for grading and feedback.

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17.5: Marketing Plan Exercise - Product or Service

Assignment 5 - Product or Service

Complete the following information about the company and products/services you chose to focus on as you develop the marketing plan throughout the course. You may need to conduct research to obtain necessary information.

Instructions: Using the Marketing Plan Template file you created from the Marketing and Customer Value assignment and expanded upon in Strategic Planning in Marketing, Market Segmentation, Targeting, and Positioning, and Marketing Research and Market Intelligence, complete the following section of your marketing plan:

- Marketing Strategy: Product or Service

Submit the marketing plan to your instructor for grading and feedback.

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17.6: Marketing Plan Exercise - Pricing and Distribution

Complete the following information about the company and products/services you chose to focus on as you develop the marketing plan throughout the course. You may need to conduct research to obtain necessary information.

Instructions: Using the Marketing Plan Template file you created from the Marketing and Customer Value assignment and expanded upon in Strategic Planning in Marketing, Market Segmentation, Targeting, and Positioning, Marketing Research and Market Intelligence, and Products: Consumer Offerings, complete the following section of your marketing plan:

- Marketing Strategy: Pricing and Distribution

Submit the marketing plan to your instructor for grading and feedback.

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17.7: Marketing Plan Exercise - Promotion

Complete the following information about the company and products/services you chose to focus on as you develop the marketing plan throughout the course. You may need to conduct research to obtain necessary information.

Instructions: Using the Marketing Plan Template file you created from the Marketing and Customer Value assignment and expanded upon in Strategic Planning in Marketing, Market Segmentation, Targeting, and Positioning, Marketing Research and Market Intelligence, Products: Consumer Offerings, and Pricing Products and Services, complete the following section of your marketing plan:

- Marketing Strategy: Promotion

Submit the marketing plan to your instructor for grading and feedback.

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CHAPTER OVERVIEW

6: Intro to Digital Marketing and the Digital Consumer

6.1: What is Marketing?

6.2 Evolution of Word-of-Mouth (WOM) Theory

6.3: The Consumer Journey

6.4 Understanding the Digital Consumer

6.5 Rethinking the Consumer Journey

6.6: Consumer Journey: The Circular Model

6.7: Zero-Moment of Truth (ZMOT)

6.8: Journey Mapping

6.9: References

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6.1: What is Marketing?

Learning Objectives

Understand what the main goal of marketing is (to create value), and how the changing ecosystem is transforming the ways we have to achieve this goal.

In this chapter, we discuss how digitalization is changing the ecosystem in which we conduct marketing activities. We start by defining what marketing is, what value is, and how value is created. We then explore how the media ecosystem and digital channels are transforming the logic through which we create value, moving away from representing the company to representing the customer. We conclude by briefly discussing the consumer journey to set up the next chapter.

What is Marketing?

According to the American Marketing Association—marketing's top association—**marketing** is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large (American Marketing Association, 2013).

From this definition, of importance for our reconceptualization of the ecosystem in which consumers and firms operate and to better understand transformation in the consumer experience and why it is necessary to adopt a drastically different perspective on how to perform marketing online, we concentrate on the following elements of this definition: *processes* for *creating, communicating, delivering, and exchanging offerings that have value.*

In other words, the role of marketing is *to create value* for a broad range of stakeholders. In this textbook, we concentrate on value creation for consumers. We concentrate on value creation because consumers "do not buy products or services, they buy offerings which … create value" in their lives (Gummesson & Foramitti, 1997). Hence, we will focus on understanding how firms can create value in consumers' lives and how they can do so online.

Firms create value for consumers in many different ways. If we rewind a few decades, our understanding of value creation was tainted by the work of economists, and value was mostly thought of as based on products' utility. **Utilitarian value,** therefore, denotes the value that a customer receives based on task-related and rational consumption behavior (Babin et al., 1994). Since then, our understanding of value has vastly broadened to other types of value, such as **hedonic value**—value based on the subject experience of fun and playfulness (Babin et al., 1994) or **linking value**—value based on the creation of interpersonal links between consumers (Cova, 1997). This is important for digital marketers because it means that there are numerous avenues to contribute to consumers' lives through value creation that expand beyond the use of a product by a consumer to achieve a specific task.

Another important transformation that happened in the last decade in our understanding of value creation has been the idea that *value is always co-created* (Vargo & Lusch, 2004). Value is co-created through the meeting of consumers, with their own resources, such as skills, expertise, and existing sets of stuff they possess, with that of firms and their resources, such as brand campaigns, service delivery models, and the products they sell.

Let's see these notions concretized through an example: Before, we would have conceptualized a consumer buying a car because they wanted to extract the utilitarian value associated with this product (i.e., moving from point A to point B). Value resided in the car and was transferred to a consumer when they used that product. Nowadays, we understand the purchase of a car as conceptually very different. First, consumers can buy a car for reasons different from going from point A to point B. Maybe they want to belong to a community of other consumers, or what is referred to as a **consumption community,** and buying this car allows them to do so. This *community-oriented strategy* is employed by iconic brands such as Harley-Davidson (Muniz et al., 2021). Maybe they see the car as a recreational object, where the end is not important (i.e., where they are going), but how they get there is. This has led to many ads emphasizing the pleasure of driving, rather than more utilitarian characteristics such as fuel economy. Moreover, we now understand the value created by a car as emerging from the interaction of a consumer and the car. For example, creating value by consuming a sports car can be limited by the driver's skills. The car has a set of characteristics from which consumers can create value, but they can only maximize value co-creation if they possess the expertise to do so. Similarly, a consumer can co-create value when buying a Harley Davidson while riding it, but they might leave undeveloped value when they do not participate in the worldwide community of Harley Davidson drivers worldwide.

To sum up, value exists in many different ways, and it is always the result of the interaction between a consumer and a firm (and its products and services). This has important implications for digital marketing, one of them being the creation of content. Many firms participate in creating value in consumers' lives by offering free content. This content can have hedonic value, such as a humorous YouTube video. It can also help consumers improve their skills and knowledge through, for example, online tutorials. By bettering consumers' expertise, firms allow consumers to expand their resources, which can lead them to create more value when consuming products. We will come back to this idea at this chapter's conclusion.

How do firms create value? For the last 30 years, the dominant paradigm to understand how firms create value for consumers has been market orientation. **Market orientation** refers to "the organization-wide generation of market intelligence, dissemination of the intelligence across departments and organization-wide responsiveness to it" (Wikipedia, 2024a; Kohli & Jaworski, 1990). By this, we mean that organizations create value by generating information and disseminating it throughout the firm to respond to it properly. This is done by generating and responding to information about *customers*, or what is referred to as **customer orientation**, and generating and responding to information about *competitors*, or what is referred to as **competitor orientation**. For this reason, marketing academics and practitioners typically aim to identify and respond to customer needs and examine and respond to their competitors' efforts. Being market-oriented has been found to be a necessary firm characteristic in order to compete in markets effectively (Kumar et al., 2011). For this reason, we will cover both customers and competitors in the first few chapters, and the strategic framework offered in this textbook is centered around answering customers' needs, goals, and desires, ideally more effectively than the competition.

Now that we have defined the basis of marketing, we turn our attention to changes brought about by the Internet and their transformation of how firms create value for consumers.

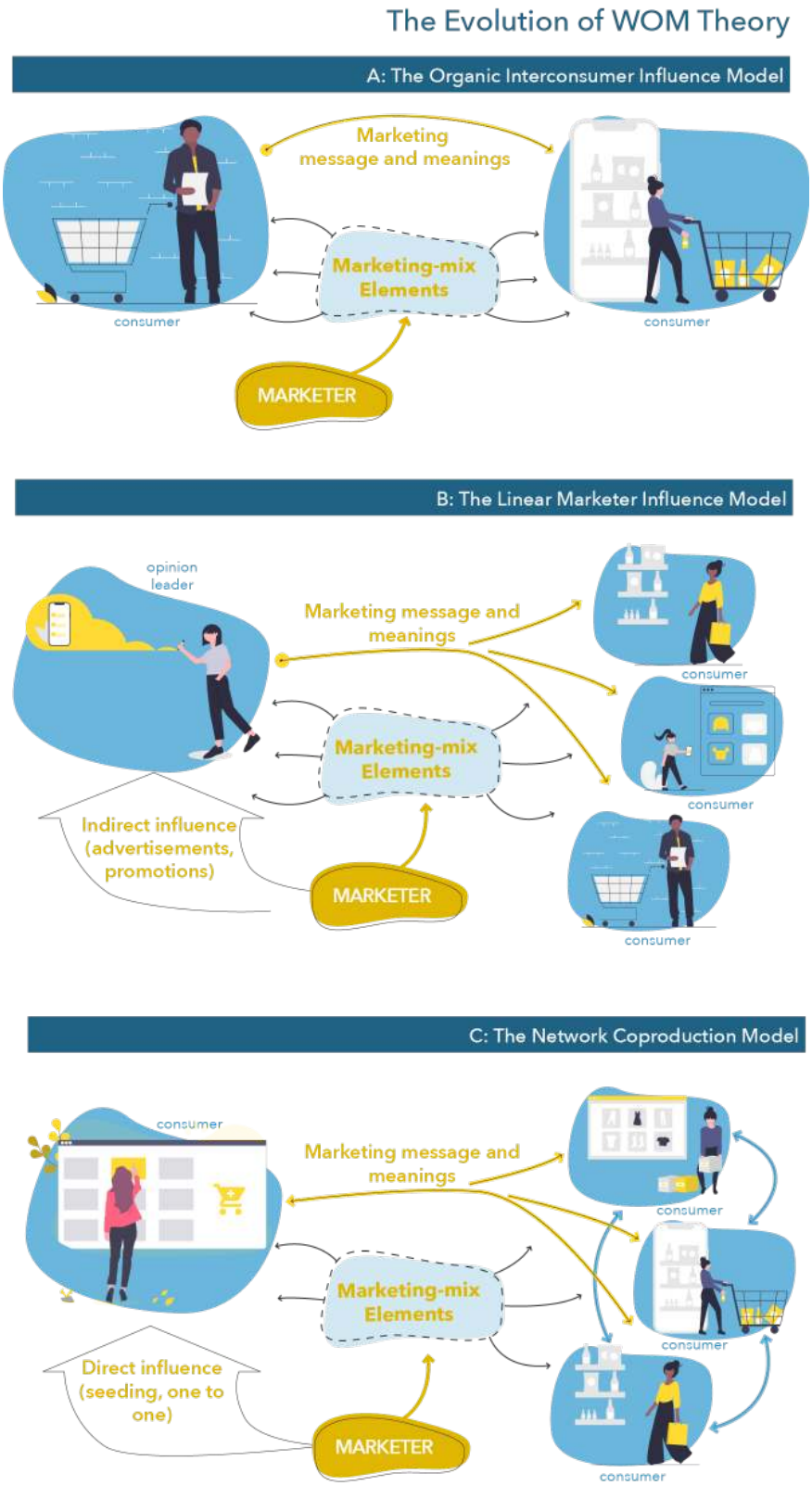
Creating Value in the Digital Age

Canadian media scholar Marshall McLuhan famously wrote that "the medium is the message" (McLuhan, 1964). By this, he meant to emphasize that the characteristics of a medium (e.g., TV vs. print vs. Internet) played an important role in communications, in addition to the message. We conclude this chapter by showing how the Internet, as a medium, has had a transformative role in shaping the message, and what this means for marketing.

The ways messages are diffused to consumers have vastly been transformed since the 1950s. In reviewing word-of-mouth (WOM) models, Kozinets et al. (2010) identified three periods useful for conceptualizing how the diffusion of messages from firms to consumers has evolved.

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6.2 Evolution of Word-of-Mouth (WOM) Theory



Evolution of Word-of-Mouth (WOM) Theory

In the 1950s, the diffusion of messages echoed a view found in the very successful series *Mad Men*: advertising firms would create what they believed to be a message that could sell products and used mass media such as TV, newspaper, magazines, and the radio to diffuse these messages. Word-of-mouth was organic in the sense that it happened between consumers without interventions from firms.

In the 1970s, theorists started recognizing that some individuals held more power in influencing other consumers. These influential consumers and celebrities would begin to be increasingly leveraged by firms to diffuse their messages. In these earlier efforts, such influencers were believed to faithfully diffuse the message created by firms and their advertising agencies.

The emergence of the Internet led to a third transformation in how we understand message diffusion and word-of-mouth and, hence, to a movement towards a **network coproduction model**. In this last model, consumers like you and I, online communities, and other types of networked forms of communication (such as *publics* created through hashtags, see Arvidsson and Caliandro), have an increasing role to play not only in diffusing messages but also in transforming them.

Marketers have capitalized on this new mode of diffusion for messages by directly targeting influencers that are part of consumer networks and communities, resulting in the explosion of influencer marketing and the rising influence of micro-influencers. They have also developed capacities, such as social media monitoring, to identify emergent discourses on and around their brands, which sometimes completely reinterpret brand meanings.

The *increased power of consumers* in creating, modifying, and diffusing messages on and around brands has led, for example, to the creation of **doppelgänger brand images,** "a family of disparaging images and meanings about a brand that circulate throughout popular culture" (Thompson et al., 2006). Alternatively, to simplify, consumers now create alternative campaigns that tarnish the intended image initially created by brands. Consumers using Twitter to diffuse alternative brand meanings or groups of consumers such as 4chan coopting advertising campaigns, can be seen as such examples. The increased role of consumers in the creation and diffusion of messages has important implications for firms for value creation: firms now must both how consumers can amplify their messages, but also how they can be coopted, reshaped, and resisted.

Another transformation brought about by the Internet is media and **audience fragmentation**. In the 1970s, *All in the Family* was, for a few years, the top watched TV show. At its peak, it was watched by a fifth of the U.S. (Cohen, 2018). The last finale to make the top 10 list was Friends in 2004, as the adoption of broadband Internet accelerated (Young, 2009).

Consumers have an increasing number of options for media-based entertainment. Traditional media companies are now competing against **user-generated content** on social media websites such as Instagram, Facebook, and Tik Tok (Wikipedia, 2024b). Younger consumers have moved en masse to these new media, complicating the creation of advertising campaigns. Media fragmentation and the rise of the Internet in consumers' lives has led to the emergence of the concept of the **attention economy** (Wikipedia, 2024c).

This is not a new concept. In 1971, Herbert Simon was already discussing how "information consumes … the attention of its recipients," and Bill Gates stated in 1996 that "content is king" (Shapiro & Varian, 2003; Evans, 2017). The implication for digital marketing has been recognized as early as the mid-1990s when Mandel and Van der Leun mentioned in their book *Rules of the Net* how "attention is the hard currency of the cyberspace" Goldhaber (1997) would add that "as the Net becomes an increasingly strong presence in the overall economy, the flow of attention will not only anticipate the flow of money but eventually replace it altogether." This has led to a drastic rethinking of online marketing and is intrinsically tied to the rise of inbound and **content marketing** (Wikipedia, 2024d).

To recap, a few decades back, information was rather scarce; people, for the most part, consumed information from only a few sources, and companies could rather easily target consumers to diffuse their advertising messages. Nowadays, information is plentiful, consumers are diffused over a largely fragmented media ecosystem, and it has become more difficult for companies to diffuse their advertising messages to a mass, which can also work against them. This, and the development of targeting technologies that have transformed how we can send messages to consumers. It has led to two important transformations for marketers and how we understand value creation for consumers.

Finding Consumers vs. Being Found

A first transformation moves away from *finding consumers* toward *being found by consumers.*

What does this mean?

If we rewind history, it used to be that marketers would “find” consumers: They would use market research reports in order to understand where consumers hang out so as to place advertising what they watched so that they could run ads during their favorite shows and understand their movement in a city so to put ads and billboards at the right place. Although this still functions online—you can ‘find’ consumers through online targeting to place your ads on relevant websites—there has been an important switch towards *consumers finding companies*.

Consumers find companies through their normal searches. In the chapter on consumers and their journey, we will see how finding companies expands the sets of brands that consumers consider before making a purchase.

How does this work?

Think of a need or a problem you might have. How do you usually go about answering this need or resolving this problem? Maybe you will ask a friend. Maybe you will go to a store and trust the salesperson. Or perhaps, as millions of consumers do every day, you will turn to the Internet to search your need or your problem. *This is how thousands of consumers discover new brands and products every day!* This has strong implications for digital marketers, one of the most important being content creation: To be found by consumers, you need to create content that addresses their problems. We will explore this topic in more detail when discussing content creation.

In short, it used to be that companies would find consumers and try to attract them to their stores or choose their brands through traditional media and advertising. Nowadays, our job has moved to create content that informs, educates, and entertains consumers so that they can find us when they are searching for the needs they have or the issues they are facing.

Representing the Company vs. Representing the Customer

A second important difference is representing yourself as a company vs. representing the customer.

What does this mean?

It used to be that, when finding consumers, companies would talk about themselves. Take, for example, this ad from Home Depot, which emphasizes how “Home Depot is more than a store … it is everything under the sun … all at a guaranteed low price” where you can save on flooring and where they have everything for your needs. In short, the ad presents the company and explains why the company and its product are the best choice for the consumer. The ad *represents the company:*



Representing the customer means switching the focus to the needs, goals, and problems consumers are experiencing and helping consumers address these. There are numerous ways to do so. Companies often create resources, such as tutorials and infographics, to help consumers answer their needs and problems or help them achieve their goals. For example, Nike has developed an extensive set of videos (which can all be found on its YouTube channel) to help consumers work out at home, train for running, or

eat better (Nike, 2024). This obviously represents opportunities for Nike to talk about its brand in every tutorial and connect with consumers. However, the main goal is not to talk about how great Nike and its products are. Rather, it is to help consumers achieve their training, running, and eating goals. It still serves the company well, though: when a consumer is searching for at-home exercises, they might come across Nike, consume their tutorials, and, when it is time to purchase a new pair of sneakers or a tee to exercise, be more likely to buy from Nike than from a competitor.

Some brands have taken this a step further by offering tutorials tied with in-store products, with a readily available shopping list for do-it-yourself projects. Home Depot, for example, offers many tutorials on its YouTube channel (The Home Depot, 2024a). This makes sense, given that the home improvement store sells products for such projects. By going a step further and representing the consumer's needs, Home Depot can bring potential customers to their website when they want, for example, to build a fire pit (The Home Depot, 2024b). Within these tutorials, Home Depot presents the “Materials You Will Need,” which directly brings consumers to sections of their websites where they sell such products. The tutorial has thus become a great resource for creating sales!

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6.3: The Consumer Journey

What is a **consumer journey** (Court et al., 2009)? It is the experience of a consumer across the different stages of their buying process, which then extends to phases of relationships with a company. For example, let's imagine you want a new pair of sneakers. You might have an existing pair. How satisfied were you with that pair? If you were highly satisfied and you still love the brand, you might go buy the same pair. This is partly why companies try to build loyal customers: to foster repeat sales. If you were unsatisfied, or if this model is not available anymore, or if you want some variety, you might go and look for another pair of sneakers. You will then go through different stages: You just recognized a need you want to address, you will move to discover options to address your need, you will then evaluate these options, you will make a choice and buy a new pair of sneakers, and you will then evaluate how much you like or dislike this pair.

Pre-empting the next chapter, these transformations and the new digital ecosystem in which consumers are evolving have led to a drastically different way to enter into relationships with brands. Consumers now discover brands rather than being discovered by them, and they often start their relationships with online searches aligned with their needs, goals, and problems. The objective of companies doing marketing online is thus to be there when consumers need them. In the next chapter, we will talk about how we can conceptualize such changes and transformations in the journey consumers take when buying the products they want.

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6.4 Understanding the Digital Consumer

Learning Objectives

Understand what personas, journeys, and maps are, how to calculate customer lifetime value, and why customer lifetime value is important.

In this chapter, we discuss how digitalization is transforming the journey of consumers. To better understand how to do marketing online, we also cover basic marketing tools (i.e., persona and consumer journey) to help us create digital marketing campaigns. We conclude the section by discussing journey maps.

Understanding Consumers Through Personas

There exist two grand approaches to conducting marketing: **mass marketing** (i.e., an undifferentiated approach where products are simply sold to the masses) or **targeted marketing** (click here for more information on these approaches) (University of Minnesota, 2015). In the latter approach, firms practice segmentation and tailor marketing communications and products to segments. The digital ecosystem makes it easy to address segments, even *segments of one* (Winger & Edelman, 1989). Although it is possible to practice mass marketing online, many processes unique to digital marketing, such as web analytics, A/B testing, or online targeting platforms, work best when firms have defined segments (Gelinas, 2016). For this reason, we will emphasize a targeted approach in this course.

To practice targeted marketing, firms use **segmentation** to create homogeneous consumer groups (i.e., they have similar characteristics) that are nevertheless heterogeneous from the rest of the population (i.e., they differ from the rest of the population based on their shared characteristics).

A useful tool to help create and represent segments is the persona. A **persona** is a semi-fictional, generalized representation of a customer segment. Personas help you better understand your customers (and prospective customers) and make it easier to tailor content to different segments' specific needs, behaviors, and concerns (Wikipedia, 2024a).

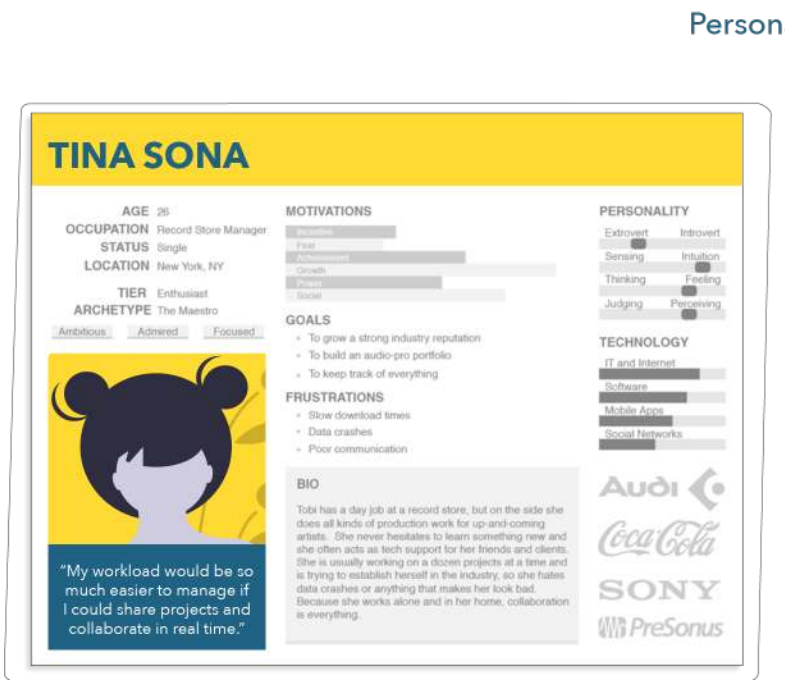


Figure 6.2 Persona

Personas are important because they help you understand who your ideal consumers are, what their characteristics are, and how to talk to them. The needs, desires, and problems of your personas (or segments, more generally) should be the starting point of any marketing strategy. As a reminder from Chapter 1, our goal as marketers is to create value, and in digital marketing campaigns, we

create value by *representing the customer.* The only way to do so is to understand what this customer is and what they need. Personas can assist various marketing activities, from creating campaigns and ads to guiding product and service development to helping with customer support. We will see how shortly.

Firms develop personas the same way they develop segments: through market research and internal data. Firms typically segment consumers based on their behaviors (which are also now trackable online!), demographics, lifestyles, or psychographics (see the table below for a summary) (University of Minnesota, 2015).

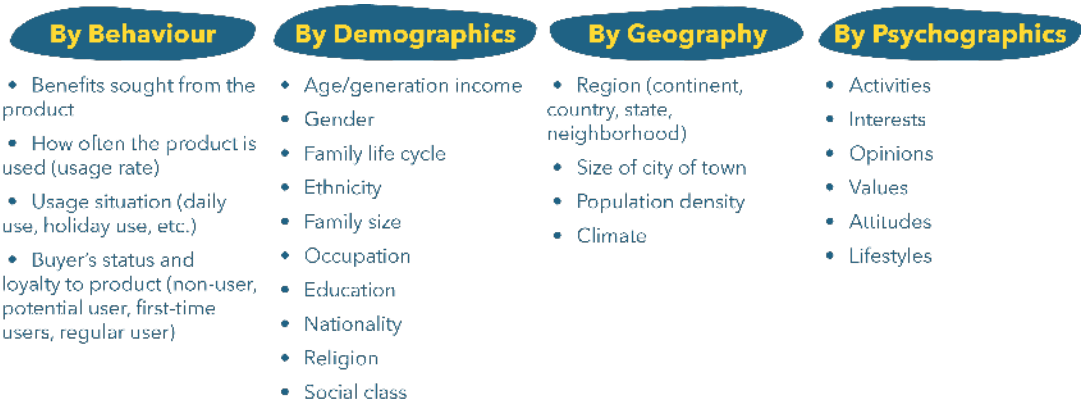


Figure 6.3 Type of Segmentation From University of Minnesota (2015) 'Principles of Marketing'

Segmenting based on these variables is highly useful to inform online targeting strategies. For example, on the Facebook Ads platform, you can easily select to deliver an ad to people aged between 18 to 25 years old living within a kilometer of the Mile End who like cycling.

Yet, this provides less information as to how to talk to these consumers. For this reason, we emphasize the importance of intersecting segments with their goals, wants, needs and motivators, and the challenges they face (Niosi, n.d.). This provides key information to create your digital marketing campaigns.

In her Introduction to Consumer Behaviour, Andrea Niosi explains these as follows:

A **goal** is the cognitive representation of a desired state, or, in other words, our mental idea of how we'd like things to turn out (Fishbach & Ferguson, 2007; Kruglanski, 1996). This desired *end state* of a goal can be clearly defined (e.g., stepping on the surface of Mars) or it can be more abstract and represent a state that is never fully completed (e.g., eating healthy). Underlying all of these goals, though, is **motivation**, or the psychological driving force that enables action in the pursuit of that goal (Lewin, 1935).

Motivation can stem from two places. First, it can come from the benefits associated with the process of pursuing a goal (**intrinsic motivation**). For example, you might be driven by the desire to have a fulfilling experience while working on your Mars mission. Second, motivation can also come from the benefits associated with achieving a goal (**extrinsic motivation**) such as the fame and fortune that come with being the first person on Mars (Deci & Ryan, 1985). One easy way to consider intrinsic and extrinsic motivation is through the eyes of a student. Does the student work hard on assignments because the act of learning is pleasing (*intrinsic motivation*)? Or does the student work hard to get good grades, which will help land a good job (*extrinsic motivation*)?

Consumer behavior can be thought of as the combination of efforts and results related to the consumer's need to solve problems. Consumer problem-solving is triggered by the identification of some **unmet need**. A family consumes all of the milk in the house, or the tires on the family car wear out, or the bowling team is planning an end-of-the-season picnic: these present a consumer(s) with a problem that must be solved. Problems can be viewed in terms of two types of needs: physical (such as a need for food) or psychological (for example, the need to be accepted by others).

Although the difference is a subtle one, there is some benefit in distinguishing between needs and wants. A **need** is a basic deficiency given a particular essential item. You need food, water, air, security, and so forth. A **want** is placing certain personal criteria as to how that need must be fulfilled. Therefore, when we are hungry, we often have a specific food item in mind. Consequently, a teenager will lament to a frustrated parent that there is nothing to eat, standing in front of a full refrigerator.

Most of marketing is in the want-fulfilling business, not the need- fulfilling business. Apple does not want you to buy just any watch; they *want you to want to buy* an Apple Watch. Likewise, Ralph Lauren *wants you to want* Polo when you shop for clothes. On the other hand, a non-profit such as the American Cancer Association would like you to feel a need for a check-up and not care about which doctor you go to. In the end, however, marketing is mostly interested in creating and satisfying wants. Often, discussions around needs are further explained in the context of those that are **utilitarian** (*practical and useful in nature*) and those that are **hedonic** (*luxurious or desirable in nature*).

To this list, we add the notion of **challenges**. By challenge, we refer to an obstacle faced by a consumer in wanting to resolve a need or fulfill a want. This is important because consumers turn to the Internet every day to help them answer challenges they face in their everyday life, whether it is how to change a tire, how to have the perfect Friday night makeup, or how to paint a room. Resolving challenges drives the consumption of online content.

- Hence, when creating a persona, you create a semi-fictional representation of a segment by bringing together the following information:
- Basic behavioral, demographic, geographic, and psychographic information to facilitate targeting
- Needs, and/or wants, and/or goals, and/or challenges to facilitate the creation of your campaign
- Information that makes your persona 'feel' real, such as
    - Pictures
    - Quotes from interviews with real consumers
    - A name
    - Examples of "real" problems

Take the following example of RV Betty:

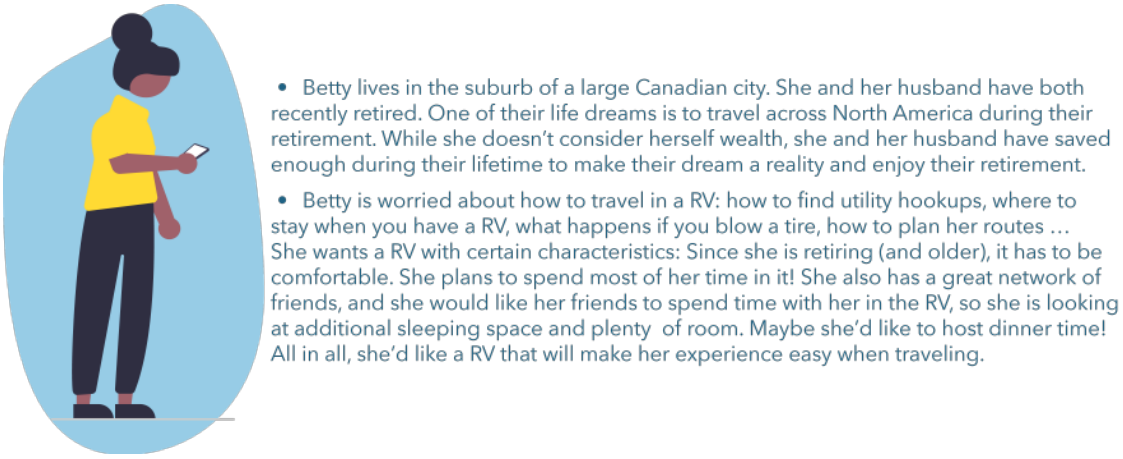


Figure 6.4 Credit: BBH Singapore (@bbh_singapore)

Can you find the information mentioned above in this short persona?

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6.5 Rethinking the Consumer Journey

Rethinking the Consumer Journey

A **consumer journey** is the trajectory of experiences through which a consumer goes from not knowing they want something to buying this something, to performing post-purchase activities (the most obvious being consuming the product) (Wikipedia, 2024b). More theoretically put, it is "an iterative process through which the consumer begins to consider alternatives to satisfy a want or a need, evaluates and chooses among them, and then engages in consumption" (Hamilton et al., 2019). The journey is composed of pre-purchase activities, i.e., activities consumers take prior to buying a product; purchase activities, or what people do to acquire a product; and post-purchase activities, what happens once consumers have bought a product (Lemon & Verhoef, 2016).

As a side note, we make a distinction in this course between ***customer* journey**, which would focus on the journey of a customer with a specific firm and would include, for example, a touchpoint solely associated with that firm, and ***consumer* journey**, which is a broader perspective on consumers who "undertake [a journey] in pursuit of large and small life goals and in response to various opportunities, obstacles, and challenges" (Hamilton & Price, 2019). By **touchpoint**, I refer to "any way a consumer can interact with a business, whether it be person-to-person, through a website, an app, or any form of communication" (Wikipedia, 2024c).

Understanding the consumer journey is important because it strongly contributes to firm performance. For example, a survey by the Association of National Advertisers in 2015 found that top performers in a market understood the journey better than their peers and had better processes to capture journey-related insights and use them in their marketing efforts (Edelman & Singer, 2015).

The journey varies greatly depending on which market a firm evolves in. It also varies depending on personas and their specific goals. For example, a survey by Google found that some markets, such as banking, voting, and finding a credit card, will have a typically longer journey than others, such as groceries or personal care products (Think with Google, 2011). And variation exists within markets. Google found, for example, three types of journeys for restaurants: one where consumers pick a restaurant within the hour; one where consumers pick a restaurant a day before; and a last one where consumers pick restaurants 2 to 3 months before.

Can you think of what these relate to?

We can hypothesize: If you're at work and looking for a place to have lunch, chances are, you won't dedicate much time to it and will pick a restaurant within the hour before going. If you are going out with friends or on a Tinder date, you might be a bit more involved in the process and will pick the restaurant one or two days before. Lastly, if you are going to travel (and are a foodie!) or you want to make a marriage proposal, this will require more planning, and you might start your journey much, much before. This also has implications for restaurants! Some restaurants that cater to downtown lunchers might be better off pushing Instagram ads with the menu of the day, or some daily sale, around 11 AM before lunch. Restaurants catering to groups or dates might want to start campaigns on Wednesdays to capture Friday and Saturday restaurant-goers. And restaurants that target the marriage proposal or foodie crowds might need longer, "always-on," continuous marketing activities to bring in patrons (Chaffey, 2019).

Understanding Consumer Journeys

Our understanding of consumer journeys has greatly evolved over the last two decades. It is important to understand that these are not perfect representations of reality. Rather, they are thinking tools that help us create marketing campaigns. In real life, people tend not to be so linear in their decisions.

A common conceptualization found in marketing textbooks is one where consumers move between different stages, initially being aware of a large number of brands, and slowly refining their understanding of the options in the market to make their purchase. McKinsey.com (1999) represents such a typical model here. In this model, the consumer goes through 5 stages (Antoine, n. d.):

1. Awareness: the consumer is aware of a large number of products or brands in the market that might help address their need
2. Familiarity: From this large number of brands or products they are aware of, the consumer will make some initial research and become familiar with a subset of brands.
3. Consideration: From this smaller number of familiar brands, the consumer will continue their research efforts, eliminate some brands that do not fit their criteria, and narrow to a smaller number of considered brands (i.e., a 'consideration-set') (Mahr, 2023).

4. Purchase: Once ready to buy, the consumer might try out, or seek in-depth information on an even smaller subset, based on their consideration-set, from which they will purchase a product or a brand.
5. Loyalty: Assuming their consumption experience goes well, the consumer can become loyal to the product or the brand.

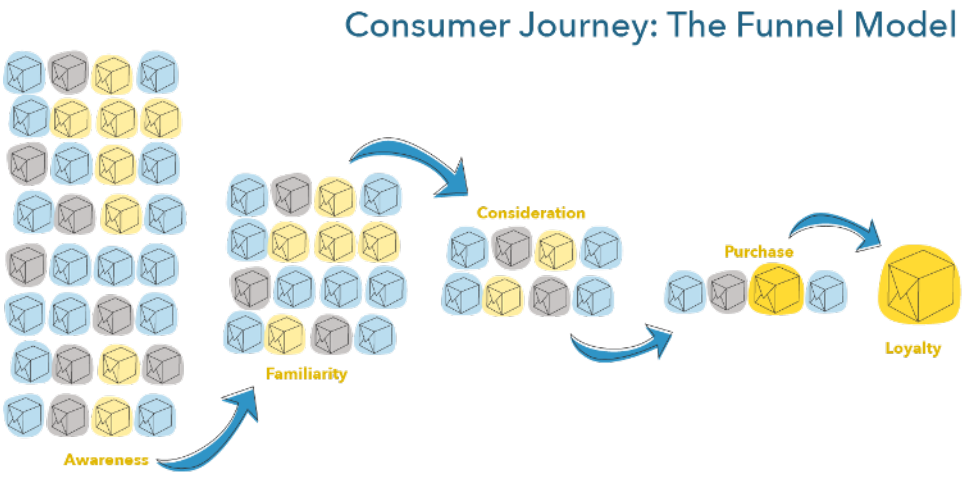


Figure 6.5 Consumer Journey: The Funnel Model

This understanding of the journey is based on **a funnel model**, where consumers start with being aware of a large number of brands, and over time, reduce their options as they go through each of the stages. This has a number of implications for marketers.

A first, central assumption is that, to be ultimately chosen by consumers, companies need to make sure that consumers are aware of them. This partly helps explain the prevalence of mass marketing: it serves to create awareness.

A second, central assumption is that consumers start with a large set of brands that are aware of, and over time, reduces this set to a smaller and smaller set of brands as they search and evaluate options.

McKinsey introduced in 2009 a competing model for the consumer journey, based on the purchase decisions of close to 20 000 consumers across five industries. They found that these two assumptions did not hold:

First, consumers do not start with a large set of brands they are aware of. Second, consumers do not reduce their options as they go through the stages of the funnel. Rather, the number of options they consider increase throughout their journey.

If you think of some recent purchases you made, this makes sense. Let's say I want a pair of running shoes. I might be aware of some brands and model, probably the ones that do the most mass advertising: Nike, Adidas, Reebok. Then, I turn to the Internet to perform some searches. I'll use general key terms like "What running shoes should a beginner get" or "Reviews for running shoes 2020." Throughout my search efforts, I will encounter new brands I had not considered originally, for example, Asics, Brooks, and Saucony.

In this example, rather than following the funnel metaphor, where the set of brands I was aware of reduced to a smaller set of familiar brands and an even smaller set of considered brands, I *added* brands to my consideration-set.

This has important implications for digital marketers: First, traditional, push, mass marketing media activities are not necessary (Saravia, 2020). Second, consumers broaden the set of products or brands they consider when they do research. We will see how this has led to the rapid growth of inbound marketing activities that help consumers with their problems and help consumers evaluate their options. This is because brands now understand that by supporting consumers throughout their journey, they can enter consumers' consideration-set and ultimately make a sale.

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6.6: Consumer Journey: The Circular Model

McKinsey.com (2000) also proposes a competing model, a **circular model** for the consumer journey. The model is circular because consumers enter a loyalty loop, where they move between using a product or brand, buying this product or brand again, participating in post purchase activities, and so on. The McKinsey model has the following stages:

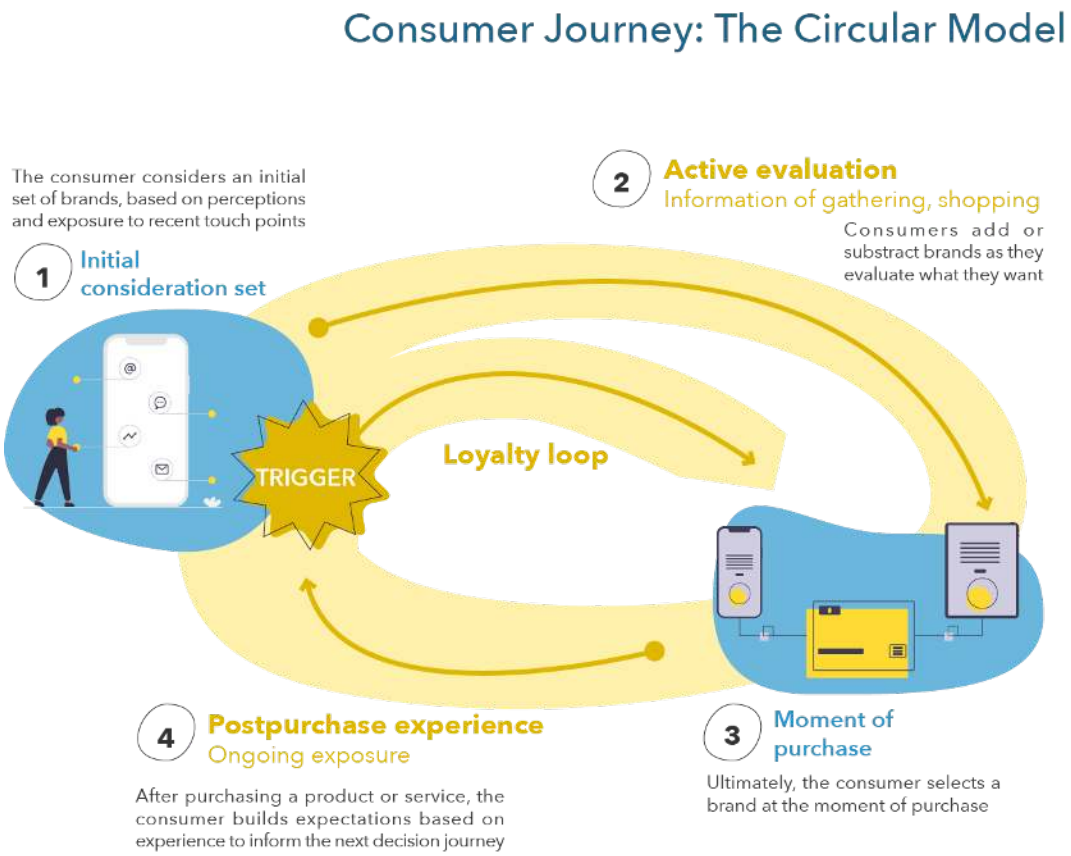


Figure 6.6 Consumer Journey: The Circular Model

1. Trigger: The consumer experiences a need, problem, or want to achieve a goal, which initiates their journey
2. Initial consideration set: The consumer considers an initial set of brands, based on their experiences, brand perceptions, and exposure to recent touch points. For the initial consideration-set, the most influential touchpoint is company-driven marketing, such as advertising, direct marketing, sponsorship, and the likes. See a graphic representation here.
3. Active evaluation: This is a new stage introduced by McKinsey. At this stage, the consumer actively evaluates their options through information gathering and shopping. Often, consumers will do information gathering online. It is at this stage that consumers *add* brands to their consideration set. We are not in a funnel model anymore. This is the first difference of importance for digital marketers: It means we can enter consumers' consideration-set without having to do awareness-generating campaigns. If we help consumers make their decisions or if we have reviews online, for example, they can consider us. McKinsey finds that the most influential touchpoint for this stage is consumer-driven marketing, such as word-of-mouth, the information found during online searches, and reviews.
4. Moment of purchase: The consumer selects a brand, which they purchase.
5. Post-purchase experience: The consumer builds expectations based on their experience after purchasing a product or a service. This will inform the loyalty loop. A second important difference with the funnel journey happens at this stage: Consumers start creating content for brands (i.e., the 'consumer-driven marketing' efforts I refer to in stage '3'). Think about products or services you bought recently: Maybe you posted a picture about it on Instagram, maybe you wrote a review on Yelp!, or maybe you participated in some company-supported marketing activities (Instagram, 2024; Yelp, 2024).

These two important revisions to the journey—the expansion of the consideration set during active evaluation and the importance of consumers in participating in consumer-driven marketing at the post-purchase stage—open up many content-based possibilities for digital marketers. As we remember, our goal in digital marketing is to *represent the customer:* What are their needs? Goals? Problems? How can we help them address these? Our objectives are not to sell products or talk about our brand. Rather, we will see that we make sales online by supporting consumers throughout their journey—helping them understand their problem, helping them evaluate solutions, and helping them better understand our product.

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6.7: Zero-Moment of Truth (ZMOT)

Zero-Moment of Truth (ZMOT)

In a great content marketing for themselves (i.e., this concept helps sell Google products!) Google introduced in 2011 the concept of **zero-moment of truth**, “a new decision-making moment that takes place a hundred million times a day on mobile phones, laptops, and wired devices of all kinds … that moment when you grab your laptop, mobile phone or some other wired device and start learning about a product or service (or potential boyfriend) you’re thinking about trying or buying.” Yet, it is quite useful to think about how consumers make purchases in the digital era (Lecinski, 2011).



Figure 6.7 ZMOT

A **moment of truth** is a contact with a brand or a product when a consumer forms an impression (Carlzon, 1989). To understand the ZMOT, it is important to contextualize it historically. Why is it called the ‘Zero’ moment of truth? Quite simply, before Google introducing his concept, there exists already two moments of truth:

- First moment of truth (FMOT): When a shopper notices a product in a shopping environment which influences their buying decision
- Second moment of truth (SMOT): When a consumer experiences a product following their purchase decision

The ZMOT is the moment of truth—the context between a consumer and a brand—that happens before a shopper notices a product in a shopping environment. Concretely, ZMOT "moments" could appear during

- Online searches, talking with family and friends, comparison shopping, seeking information from a brand, reading product reviews, reading comments online, or starting to follow a brand

In contrast, the first moments of truth happen during

- Looking at a product on a shelf, reading a brochure at the store, talking to a salesperson, looking at a store display, talking with a customer service representative, using a sample in-store.

According to Google, characteristics of ZMOT are that they happen online, when the consumer is in charge (and this relates to inbound marketing) during multi-way conversations. To capitalize on ZMOTs, Google recommends being present in moments that matter:



By this, the marketing juggernaut means that you should have content and ads that respond to the needs, problems, and goals that consumers are typing in the form of search queries on search engine. All of this, you may now have guessed, requires a deep understanding of your consumers and their journey.

Google identified four ZMOTs. Briefly explain how they interact with journeys here (Think with Google, 2015; Lawson, 2015):

- I want to **know moments**, where consumers turn to a search engine for a knowledge-based query
- I want to **go moments**, when consumers turn to search to go somewhere (e.g., “restaurant near me”)
- I want to **do moments**, when consumers want help to achieve something (Fun fact! For a while there, the most searched "how-to" video was "how to kiss." Now, isn’t that sweet!)
- I want to **buy moments**, when consumers turn to search to help them make a purchase

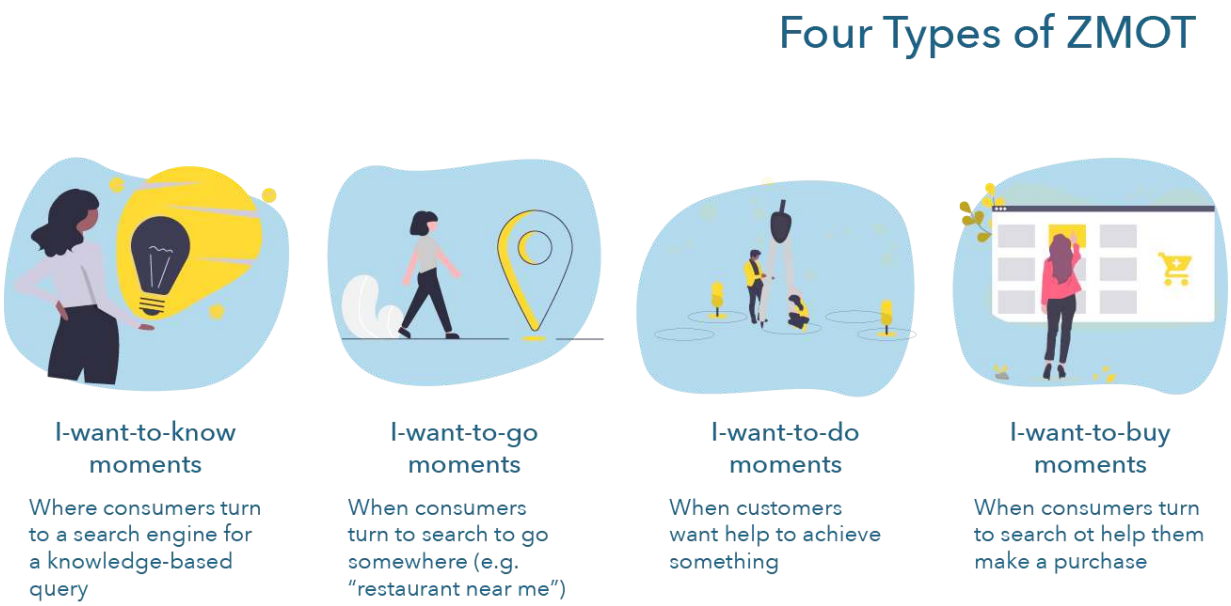


Figure 6.8 Four Types of ZMOT

These are important conceptual tools. They represent opportunities for companies online to create content. These are not simply ways to understand how consumers use search engines and interact online. Rather, they are tools to help us create better content. What kind of content would you create for these four different ZMOTs?

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6.8: Journey Mapping

Journey Mapping

Now that we have identified the conceptual vocabulary, it is time to turn our attention to using this in practice. The journeys and ZMOTs are generic ways to understand how consumers go about buying products. Knowing how consumers conceptually move from a trigger to make a purchase to become loyal to a brand or product might be interesting in itself, but it is much more useful if we can actually use this in real-life campaigns. Effective strategies demand a tailored understanding. We cannot stay at a conceptual level. We need to translate them to real-life experiences. To do so, we can perform *journey mapping*.

A **journey map** is a visual representation of the journey of consumers (Gibbons, 2018). It brings together the conceptual tools we have seen in this chapter: persona, consumer journey, and moments of truth. They vary based on segments/personas. Each persona represents a different consumer segment. They should go about buying products differently. Think, for example, about how you and your parents go about buying products.

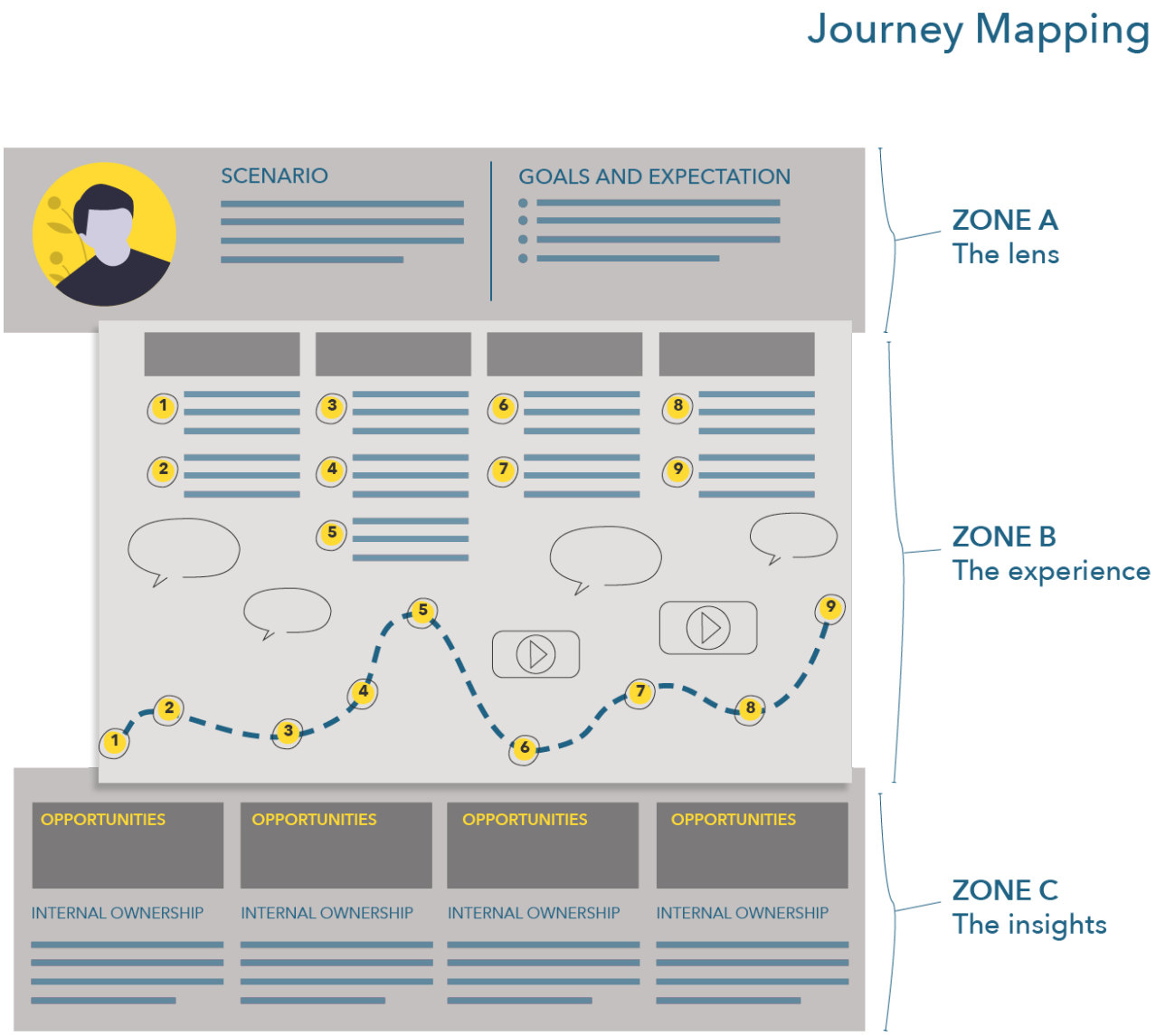


Figure 6.9 Journey Mapping

Journey maps exist in a wide range of shapes and forms. They do, though, share some comment elements:

- The persona

- Conceptual stages from a journey (e.g., trigger, active evaluation, purchase, post-purchase; or awareness, consideration, purchase, loyalty)
- Concrete actions consumers take at each of these stages
- Touchpoints that they encounter (in this course, I strongly encourage you to include yours and that of others, i.e., this is a consumer journey, you should be thinking more broadly than only your firm)
- Opportunities associated with aforementioned actions
- This page presents a clear example of this kind of journey template

Journey maps are useful. They help you understand how consumers navigate their journey to address their needs and problems. Each action they make represents an opportunity for your brand to create a connection with a consumer. A clear understanding of the concrete steps consumers take to buy products should be the starting point of creating your marketing campaigns. What do consumers do at the awareness stage? How can your brand support their actions? Do consumers search for specific things? What about at the active-evaluation stage? In the next chapter, we examine how firms can position websites on specific searches. This will help create a bridge between what consumers are doing online and how we can answer their search queries.

Exercises

How to use a persona

Let's take as an example the following persona, 'RV Betty:'



Betty lives in a suburb of a city. Her husband is also retired. They have been talking about traveling in an RV upon retirement for years – this is their long-time dream. The kids are self-sufficient and have been out of the house long enough that Betty doesn't have to worry. She's been retired just long enough to be bored. While she doesn't consider herself wealthy, she and her husband have substantial savings and are prepared to enjoy their retirement.

Betty is worried about the logistics of traveling in an RV—for instance, how easy it will be to find utility hookups or where the best places are to stay if you have one. She also wants something comfortable; she plans on spending a lot of time in it. She has other retired friends, so she wants additional sleeping space and to make sure they have plenty of room for food and for cooking. She wants as much ease as possible when traveling.

Based on this persona, briefly sketch three pieces of content. More precisely, concentrate on the general idea of what this piece of content would be about and draft

1. A first piece that addresses a problem or a need she is facing
2. A second piece that helps her evaluate her options
3. A third piece that sells your product

Tip: Make sure your three pieces of content directly address the RV Betty persona!

Creating a persona

Sketch out a persona for a Montreal real estate company specializing in first-time house buyers. To do so,

- Identify a few sociodemographic characteristics (e.g., age, revenue)
- Find one general need or problem they are facing

Tip: Ask yourself, why would these people need a house? For example,

- Why would people move to a house in Montreal?

- Are there different groups of first-time house buyers? What differentiates them? Which one are you concentrating on?
- Can you find one need or problem that unites that group?

Moving from persona to journey map

- Sketch a journey map for your real estate persona using the following journey stages
  - Awareness
  - Consideration
  - Purchase
  - Post-purchase
- Identify 2 concrete activities that your persona is doing for each stage
- Identify 2 touchpoints that your persona is engaging with for each stage
- Identify one opportunity for your company per activity

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